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24 March 2020

Attn: Kami Kaur
Australian Energy Regulator
Level 20, 175 Pitt Street
SYDNEY NSW 2000

By email: kami.kaur@aer.gov.au

Dear Ms Kaur

Request to extend time period for submission of a potential pass through application

I am writing to request an extension from the Australian Energy Regulator (AER) on the 90-business day time limit for the submission of an application for a pass-through event.

Ausgrid operates an electricity distribution network shared by more than 4 million Australians living and working in an area that stretches from south of the Sydney CBD to the Central Coast and Hunter regions of New South Wales (NSW).

Following a lengthy period of drought, 2019-20 storms hit our network with heavy rainfall and damaging winds. In February 2020 alone, the Bureau of Metrology reports that 441.6 mm of rain fell in Sydney – more than 370% above the long-term average.¹ At times, wind gusts exceeded 100km/h with the formation of a strong low-pressure system off the coast of NSW creating cyclone-like conditions.

The extreme weather resulted in flooding, fallen trees and poles, and significant damage to overhead power lines causing widespread power outages throughout our network. At its peak, 140 000 homes and businesses, or about 8% of our total customer base, were left without power.

To minimise the impact on our customers, Ausgrid field crews and support staff worked tirelessly to respond to the destruction and rebuild damaged parts of our network. We also enlisted subcontractors and skilled technicians from neighbouring network businesses. The NSW State Emergency Service (SES) helped clear fallen trees and debris.

¹ <http://www.bom.gov.au/climate/current/month/nsw/sydney.shtml>

Potential pass through application

The National Electricity Rules (NER) prescribes four pass-through events for all distribution determinations.² Our 2019-24 regulatory determination also includes a further four events that may be subject to a pass-through application. These include a 'natural disaster' pass through event.³

Our preliminary position is that a natural disaster pass through event has occurred. Under the NER, when such an event occurs, a pass-through application must be lodged to the AER within 90 business days.⁴ Among other things, this application must include the eligible pass through amount and evidence of the actual and likely increase in our costs.⁵ The increase in costs must also be material, which is defined as 1% of our annual revenue requirement.⁶

Considering these requirements, we have reached the view that it is not yet possible to assess or quantify the costs associated with the 2019-20 storms with the degree of certainty required to enable a proper consideration of a pass-through application by the AER. This is due to:

- the scale of the damage and the volume of assets impacted during the 2019-20 storms
- the ongoing nature of the associated costs as field crews continue to return to sites where temporary repairs were made
- the fact that Accredited Service Providers, neighbouring distribution network businesses and other subcontractors have yet to finalise the cost of emergency assistance they provided
- recent events related to the COVID-19 outbreak, which have required us to reprioritise our work schedules and change our practices to manage health and safety risks to our staff and customers.

Due to these factors, Ausgrid expects that it will not be able to fully account for the increase in costs associated with the 2019-20 storms until the end of the current financial year.

Our suggested way forward

Due to the difficulty in assessing and quantifying the costs of the pass-through event, Ausgrid seeks an extension of the time limit for submission of its written statement under 6.6.1(c) of the NER. Ausgrid seeks an extension of the time limit under clause 6.6.1(k) of the NER to 1 August 2020.

Extending the time limit to 1 August 2020 would enable us to capture all costs relating to the pass-through event, including those which relate to ongoing repairs and/or costs that have not yet been accounted for (e.g. where we have not yet been invoiced by third parties).

We note that the AER has previously exercised its discretion under the NER to:

- extend the time limit by 6 months for Ausgrid to consider the impact of the sale of Ausgrid's (then EnergyAustralia) retail arm
- extend the time limit by 45 business days for Ausgrid to make an application in respect of the Solar Bonus Scheme
- extend the time to 90 business days after 1 December 2017 in relation to the *Expanding Competition in Metering and Related Services Rule Change*.

² NER, clause 6.6.1(a1)

³ AER, *2019-24 determination for Ausgrid*, November 2018, p. 14-13 (Approved at Draft Decision stage)

⁴ NER, clause 6.6.1(c)

⁵ NER, clause 6.6.1(c)(3) and (c)(6)

⁶ NER, Chapter 10 (definition of 'materially')

As with the AER's previous decisions, the granting of an extension would have no implications for the AER's assessment of the merits of a cost pass-through application (if one is submitted by Ausgrid).

We would appreciate written confirmation of an extension as specified above as soon as reasonably practicable. If you would like to discuss our letter further, please contact [REDACTED] on [REDACTED].

Yours sincerely

[REDACTED]

John Skinner
Head of Regulation (Acting)