Determination

April 2022 emergency standards cost pass through

SA Power Networks

September 2022

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Tel: 1300 585 165

AER reference: 1399618

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Overview

During the regulatory control period, SA Power Networks can apply to pass through to its customers, in the form of higher or lower network charges, costs it incurs as a result of pre-defined exogenous events. These events are called cost pass through events.

On 7 April 2022, SA Power Networks submitted a cost pass through application (SA Power Networks' application) seeking to recover actual and expected costs for upgrades to its infrastructure, as required by the "*Technical Regulator Emergency Standards – Voltage Management and Under Frequency Load Shedding*" (Emergency Standards). The Emergency Standards were prepared by the Office of the Technical Regulator (OTR) under powers granted in the new Division 1A in Part 10 of the South Australian *Electricity (General) Regulations 2012* (Electricity Regulations). These changes were published on 21 December 2021 and are intended to address power system security issues resulting from the growth of Solar PV embedded generating units.

SA Power Networks has claimed $30.5 million ($m June 2020) in capital expenditure (capex) and is seeking to recover costs by increasing its revenue allowance by $5.8 million ($nominal, smoothed)[1] for the current 2020–25 regulatory control period, where $2.9 million will be recovered each year over the last two years of this period.

Under the National Electricity Rules (NER), SA Power Networks is able to seek the approval of the Australian Energy Regulator (AER), to pass through to network users a pass through amount in respect of certain events (referred to in the NER as positive change events).[2] A cost pass through application must address specified matters.[3]

If the AER determines that a positive change event has occurred in respect of a cost pass through application, the AER is required to determine (within a specified timeframe):

- the approved pass through amount, and
- how much of that amount should be passed through to distribution network users in the regulatory year, and each regulatory year after that, in which the positive change event occurred,

taking into account the matters referred to in clause 6.6.1(j) of the NER.[4]

On 27 April 2022, we published SA Power Networks' application on our website and invited stakeholder submissions. We received three submissions from individual and industry groups.

This determination sets out our assessment of SA Power Networks' application and addresses the requirements, as set out in clause 6.6.1 of the NER.

We are satisfied that the upgrades completed under the Emergency Standards meets the definition of a positive pass through event. Based on our consideration of the factors set out in clause 6.6.1(j) of the NER, we determine to allow the pass through of the costs proposed by SA Power Networks in its April 2022 Emergency Standards cost pass through application.

[1] AER adjusted, due to modelling errors, from $6.8 million ($nominal) application amount

[2] NER, cl. 6.6.1(a). A positive change event is: (a) a pass through event, other than a retailer insolvency event, which entails the Distribution Network Service Provider incurring materially higher costs in providing direct control services than it would have incurred for that event but does not include a contingent project or an associated trigger event; or (b) a retailer insolvency event. A pass through event is those events specified in clause 6.6.1(a1).

[3] NER, cl. 6.6.1(c).

[4] NER, cl. 6.6.1(d).

In the determination we discuss the South Australian jurisdictional regulatory framework relating to the $9.1 million ($ June 2020) in expenditure undertaken prior to the cost pass through event and why we have considered this to be part of the eligible amount.

We are satisfied that the materiality threshold to constitute a positive change event has been met and that the costs incurred by SA Power Networks as a direct result of the introduction of the Emergency Standards were prudent and efficient. Our decision is discussed in greater detail in sections 4 and 5 of this report.

Our determination is to approve a positive pass through amount of $5.8 million ($nominal, smoothed)[5] to be recovered over the two remaining regulatory years of SA Power Networks' 2020–25 regulatory control period through the X-factors set in the PTRM, as follows:[6]

- $2.9 million to be recovered in 2023–24
- $2.9 million to be recovered in 2024–25

We estimate that the approved cost pass through amount will add approximately $1.90 to the average residential customer's bills per annum.

[5] This incremental revenue amount reflects the amendments we have made to SAPN's proposed PTRM to correct for a number of modelling errors.
[6] Total does not add to $5.82 million due to rounding.

1 Introduction

We received a cost pass through application from SA Power Networks for additional expenditure to enhance its voltage management (VM) systems and make upgrades to address under frequency load shedding (UFLS) and dynamic under frequency load shedding (DUFLS).

SA Power Networks' application proposed to recover $2.9 million ($nominal, smoothed) from electricity users through an increase in distribution prices in each of the remaining two years of the current regulatory control period, that is, from 1 July 2023 to 30 June 2025.

This section sets out the AER's role in assessing cost pass through applications from electricity distribution network service providers (DNSP), as well as information on SA Power Networks' application.

1.1 Who we are and our role in this process

We, the AER, exist to ensure all Australian energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia. We are the economic regulator for electricity distribution and transmission services in the National Electricity Market (NEM). Our electricity-related powers and functions are set out in the National Electricity Law (NEL) and NER.[9]

The AER regulates SA Power Networks' revenues through five-year distribution revenue determinations. SA Power Networks' current revenue determination for the 2020–25 regulatory control period runs from 1 July 2020 to 30 June 2025.

We are responsible for assessing cost pass through applications.[7] Under the NER, a distribution business may apply to us seeking the recovery of additional costs incurred during a regulatory control period, if predefined events occur as specified in either the NER or in its respective revenue determination.[8]

1.2 SA Power Networks' application

On 7 April 2022, SA Power Networks submitted a cost pass through application seeking to recover the costs it has incurred for its upgrades to its VM systems and relays to deal with UFLS.

Under the Emergency Standards, SA Power Networks was required to enhance its VM at 138 sites to ensure Distributed Energy Resources (DER) could be disconnected quickly during periods of high exports at low net power system load times. Additionally, SA Power Networks installed an estimated 350 new protection relays and reconfigured 200 pre-existing relays to allow for effective UFLS during an emergency.[9] Following reports published by Australian Energy Market Operator (AEMO)[10] and meetings with the South Australian

[7] NER, cl. 6.6.1.
[8] NER, cl. 6.6.1(a).
[9] SA Power Networks, *Emergency Standards cost pass through application*, 7 April 2022, p. 15.
[10] AEMO, *Renewable Integration Study: Stage 1*, April 2020
AEMO, *Minimum operational demand thresholds in South Australia, May 2020, Technical Report, Advice prepared for the Government of South Australia*, May 2020
AEMO, *Draft 2020 Power System Frequency Risk Review – Stage 1*, June 2020

Government, SA Power Networks was advised to complete, as soon as reasonably possible, upgrades prior to the publication of the Emergency Standards at high risk sites.[11]

SA Power Networks stated that it will incur $30.5 million ($ June 2020) in costs as a result of the upgrades to its voltage management systems and under frequency load shedding relays, apportioned as shown in table 1 below.

Table 1 SA Power Networks – costs related to the April 2022 Emergency Standards ($million, June 2020)

	2020-21	2021-22	2022-23	2023-24	Total
VM/UFLS Emergency work	9.103	-	-	-	9.103
DUFLS/UFLS	-	1.332	10.421	9.644	21.396
Total	9.103	1.332	10.421	9.644	30.499

Source: SA Power Networks' cost pass through application – Emergency standards eligible pass through amount
Note: '0.0' and '–0.0' represent small nonzero number and '–' represents zero. The numbers in this table are equivalent to the numbers in Table 2 of SA Power Networks' proposal displayed in nominal terms.

Included in Table 1 is capex for enhanced VM systems during the regulatory year of 2020-21, which occurred prior to the nominated trigger date of 21 December 2021. SA Power Networks submitted that this amount should be included due to a provision in the Emergency Standards under Section 7 which states:

> For the purposes of regulation 55H(2)(c) of the Electricity (General) Regulations 2012, the Technical Regulator has determined that all activities already commenced or completed by the relevant entity prior to the commencement of these emergency standards that are consistent with the requirements of Section 4 of this document and Appendix 2, or Section 5 of this document and Appendix 3, or Section 6 of this document and Appendix 4:
>
> - Comply with these emergency standards; and
> - Were undertaken solely for the purpose of compliance with these emergency standards; and
> - Will be taken to have been, and will be treated as having been, undertaken after the commencement of these emergency standards.

Our view on this inclusion is discussed in our analysis in section 4.4.1.

1.3 Structure of determination

This document sets out our assessment and determination, amongst other things, on whether a cost pass through event has occurred, the pass through amount, the time period for the recovery of the pass through amount, and our reasons for the determination.

The decision is structured as follows.

- Section 2 sets out our determination on SA Power Networks' cost pass through application.
- Section 3 outlines relevant regulatory requirements and our assessment approach.

[10] AEMO, *Minimum operational demand thresholds in South Australia, May 2020, Technical Report, Advice prepared for the Government of South Australia*, May 2020, p. 8.

- Section 4 sets out our reasons for the determination, including our assessment of the proposed positive pass through amount.
- Section 5 sets out our assessment of SA Power Networks' cost pass through application against the NER requirements, including whether the materiality threshold is met, and consideration of stakeholder submissions.

2 Determination

Based on our consideration of all the matters set out in this decision, we consider that SA Power Networks' application, as submitted on 7 April 2022, establishes that a pass through event has occurred. The requirements outlined in the Emergency Standards constitute a service standard event.[12] Our assessment against the requirements of a positive change event is summarised in section 5 (Table 4).

We are satisfied that the Emergency Standards constitutes a positive change event as defined under the NER.

Our determination is to approve a positive pass through amount of $5,823,637 ($nominal, smoothed), to be recovered over the two remaining regulatory years of SA Power Networks' 2020–25 regulatory control period through the X-factors set in the PTRM, as follows:

- $2,905,368 to be recovered in 2022–23.
- $2,918,269 to be recovered in 2023–24.

Sections 4 and 5 set out our assessment of SA Power Networks' cost pass through application and the positive pass through amount.

[12] NER,cl. 6.6.1(a1)(2)

3 Relevant regulatory requirements and assessment approach

The first step in our assessment is to determine whether a pass through event has occurred and examine timing matters, for example, whether an application is submitted within the timeframe set out in the NER. The NER defines a positive change event for a DNSP as: [13]

> a pass through event…which entails the DNSP incurring materially higher costs in providing direct control services than it would have incurred but for that event…

SA Power Networks submitted in its application that the publication of the Emergency Standards fell under the definition of a service standard event.[14] Specifically, having the effect of imposing and varying the minimum service standards applicable during a regulatory control period. [15]

SA Power Networks' application does include a unique set of circumstances in that it included expenditure which occurred prior to the cost pass through event. An 'eligible cost' pass through amount is defined in the NER as being:

> In respect of a positive change event for a Distribution Network Service Provider, the increase in costs in the provision of direct control services that, as a result of the positive change event, the Distribution Network Service Provider has incurred and is likely to incur (as opposed to the revenue impact of that event) until:
>
> (a) unless paragraph (b) applies – the end of the regulatory control period in which the positive change event occurred; or
>
> (b) if the distribution determination for the regulatory control period following that in which the positive change event occurred does not make any allowance for the recover of that increase in costs (whether or not in the forecast operating expenditure or forecast capital expenditure accepted or substituted by the AER for that regulatory control period) – the end of the regulatory control period following that in which the positive change event occurred.

Under Section 7 of the Emergency Standards, expenditure related to the upgrades required by the Emergency Standards were considered to have occurred after, even if they were completed before the publication of the standards. We have considered the framework of the Emergency Standards against the requirements of the NER and agree that SA Power Networks should be allowed to recover the costs for the early upgrades related to the cost pass through.

It is not sufficient for us to approve expenditure undertaken before the cost pass through solely on the basis that it has been included in the regulation.

We acknowledge that SA Power Networks completed the upgrades early on the advice from the OTR that it would be covered by the Emergency Standards, and we agree that the upgrades to enhance the VM systems were efficient and prudent. Due to SA Power Networks undertaking works prior to the cost pass through event, it has resulted in a more targeted regulation to address concerns raised by AEMO and the South Australian Government. As we are satisfied that this early expenditure has likely resulted in lower overall costs to consumers than if SA Power Networks had waited to undertake these tasks after the standards were developed, we are satisfied that this expenditure is prudent and efficient.

[13] NER, chapter 10.
[14] NER, cl. 6.6.1(a1)
[15] SA Power Networks, *Emergency Standards cost pass through application*, 7 April 2022, p. 17.

3.1 Timing matters

To seek the approval of the AER to pass through a positive pass through amount, clause 6.6.1(c) of the NER requires a DNSP to submit to the AER a written statement specifying a range of details relating to the event within 90 business days of the relevant positive change event occurring.

The NER requires us to make a determination within the timeframe specified in clause 6.6.1(e). That is, within 40 business days from the later of the date the AER received SA Power Networks' cost pass through application and the date it received any additional information required by it through a notice issued under clause 6.6.1(e1) of the NER.

4 Reasons for determination

The sections below set out the reasons for our determination.

4.1 Requirements of Emergency Standards

This determination relates to a nominated pass through event, being a service standard event resulting from the publication of the Emergency Standards.

The continuing growth of the DER has prompted the South Australian Government to engage AEMO and SA Power Networks to investigate the impact it would have on power security. One of the outcomes was the publication of the *Minimum Operation Demand Thresholds in South Australia Technical Report* which raised these main issues:

- minimum load requirements during under islanded conditions; and
- disconnection of distributed power voltage.

The report emphasised action be taken to address these concerns prior to Spring 2020 or risk another black system event.[16]

Further consultation undertaken following the report led to changes in the Electricity Regulations on 4 November 2021.[17] The changes allowed the OTR to subsequently publish the Emergency Standards on 21 December 2020. These Standards applied to SA Power Networks' VM systems and UFLS relays.

4.2 Positive change event

If we are satisfied that a pass through event has occurred, we must determine whether the pass through event qualifies as a "positive change event". That is, whether SA Power Networks incurred materially higher costs in providing direct control services than it would have incurred but for the pass through event.

The NER defines "materially" as:

> For the purposes of the application of clause 6.6.1, an event results in a DNSP incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the DNSP has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the annual revenue requirement for the DNSP for that regulatory year.

As is evidenced in Table 2 below, we consider the additional costs incurred by SA Power Networks in providing direct control services as a result of the Emergency Standards meet the materiality threshold for the 2020–21 regulatory year.

[16] AEMO, *Minimum operational demand thresholds in South Australia, May 2020, Technical Report, Advice prepared for the Government of South Australia*, May 2020, p. 8.

[17] SA Power Networks, *Attachment A_Regulation 55H*, 7 April 2022, p. 3964.

Table 2 AER – Materiality assessment of the April 2022 Emergency Standards event ($million, nominal)

	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Proposed cost pass through capex	9.2	1.4	10.9	10.4	–	31.9
AER approved unsmoothed revenues as per 2022-23 RoD updated PTRM	756.9	747.5	802.0	807.9	807.7	3922.0
Materiality	**1.2%**	**0.2%**	**1.4%**	**1.3%**	–	**0.8%**

Source: AER's analysis
Note: '–' represents zero.

4.3 Timing of SA Power Networks' application

Clause 6.6.1(c) of the NER requires a DNSP to submit a pass through application to us within 90 business days of the positive change event occurring.

We consider the Emergency Standards event to have occurred on 21 December 2021. We received SA Power Networks' pass through application on 7 April 2022, which was within 90 business days after the positive change event occurred.

Following our initial assessment of SA Power Networks' application, we issued an information notice to SA Power Networks (on 27 April 2022) under clause 6.6.1(e1) of the NER, requesting further information on the scope of works and associated costs. Further formal information notices were sent on 24 May 2022 and 28 July 2022.

We received SA Power Networks' response to our last information notice on 3 August 2022. Accordingly, we are required to make this determination by 27 September 2022.

4.4 Assessment of the pass through amount

In assessing a pass through application, the NER requires us to consider a range of relevant factors,[18] including the need to ensure that SA Power Networks only recovers any actual or likely increment in costs, to the extent that such an increment is solely as a consequence of the pass through event,[19] and that SA Power Networks does not recover costs that have or will be factored into SA Power Networks' annual revenue requirement.[20]

We approach this assessment by ensuring, amongst other factors, that:

- the pass through amount reflects only those costs incurred as a result of the Emergency Standards, and not costs incurred as a result of other positive change events, business-as-usual costs, or costs of increasing the scope of network services provided by SA Power Networks
- the costs incurred are prudent and efficient costs required to upgrade the systems listed in the Emergency Standards
- the pass through amount reflects only the incremental cost of the Emergency Standards, taking into account deductions for actual and expected cost savings that will occur as a result of works undertaken to upgrade.

[18] NER, cl. 6.6.1(j).
[19] NER, cl. 6.6.1(j)(5).
[20] NER, cl. 6.6.1(j)(7).

We are satisfied that SA Power Networks' estimates of the increase in capex costs due to the Emergency Standards, accounting for the identified avoided costs, are prudent and efficient. Our reasons for this are discussed below.

4.4.1 Capex undertaken before the cost pass through event

In its application, SA Power Networks proposed $30.5 million in capex of which $9.1 million ($ June 2020) was spent during the 2020-21 period to enhance SA Power Networks' VM systems. We acknowledge that there is scope to accept this amount despite it occurring prior to the nominated cost pass through date.

Our decision is supported by section 7 of the Emergency Standards, which specified that all activities related to compliance with section 4, 5 and 6 in the Emergency Standards, even activities undertaken prior, were to be considered as occurring after the Emergency Standards' commencement. The prior activities were required to be solely related to the Emergency Standards and would be treated as having been undertaken after the commencement of the Emergency Standards. The Emergency Standards apply only to SA Power Networks. Further, the instrument that empowers the Technical Regulator to make the Emergency Standards requires any standards made under that instrument to be applied "so that electricity infrastructure and electrical installations are installed, maintained and operated in a manner that facilitates the taking of effective emergency action". "Emergency action" is defined in that instrument as action for the purposes of preventing or responding to significant disruptions (or risks of significant disruptions) to the supply of electricity to part or all of South Australia.

We note that the inclusion of such a section in the Emergency Standards of itself is not sufficient for us to approve the expenditure.

We consider this expenditure is reasonable for the following reasons:

- The Emergency Standards were implemented by the South Australian Government for upgrades to address VM and UFLS.
- Costs incurred by SA Power Networks in response to acts by the South Australian Government leading up to the publication of the Emergency Standard were strictly to address the Emergency Standards requirements. We consider the work undertaken by SA Power Networks in compliance with the Emergency Standards allowed the business to target the affected VM sites more holistically and efficiently to mitigate what the South Australian Government and AEMO considered to be a high risk to power systems.
- By completing the upgrades in bulk and before the systems were obsolete, this allowed SA Power Networks to reduce its overall costs to consumers and maintain a strong power network.

We consider that these circumstances provided a reasonable basis for SA Power Networks to have pursued the early upgrades. We note that such cases are not common, and we will continue to assess prudency in the case of similar conduct in the future. We are satisfied that SA Power Networks has demonstrated that the upgrades were prudent and efficient, and we accept the $9.1 million as part of the eligible cost pass through amount.

4.4.2 The level of Emergency Standards-related costs is the prudent and efficient

We have engaged with SA Power Networks through Information Requests and in-person meetings to discuss the unit costs and scope of work for the completed upgrades. We

consider the scope of work to be prudent.

We concluded from our discussions with SA Power Networks that the upgrades that had been completed and proposed were solely for the purposes of complying with the Emergency Standards. The enhanced VM systems are intended to reduce customer voltage enquiries and increase DER capacity and provide extra capacity during emergency DER curtailment events.[21] The replacement and upgrade of UFLS relays were restricted to what was specified by the Emergency Standards and work was only completed on moving old relays to have dynamic arming capacity.[22]

We have assessed the additional information provided by SA Power Networks in response to our information requests. After assessing this information, we consider that the network related expenditure for its upgrades was prudent and efficient. However, our analysis indicated that a significant portion of total costs were dedicated to overheads.

This included several types of overheads including labour, network management, contingency costs, and corporate overheads.

The inclusion of network related costs and overheads resulted in a bottom up capex forecast of $34.9 million.[23]

However, SA Power Networks proposed $30.5 million in capex. This difference between the bottom up forecast and the proposed capex reflects a top-down adjustment to remove corporate overheads.

We have compared SA Power Networks' $30.5 million forecast to our alternative which excludes some double counting of overheads and contingency costs. We have found there to be no material difference between our alternative and SA Power Networks' proposed capex.

Based on this, we are satisfied that SA Power Networks' proposed costs are prudent and efficient.

4.4.3 Submissions from stakeholders

The AER received three submissions from stakeholders. The submissions generally acknowledged the need for the upgrades; however, there were concerns that consumers were not adequately consulted with during the introduction of the Emergency Standards.

Dr Andrew Nance and the South Australian Council of Social Service (SACOSS) highlighted a lack of assurance for consumers that SA Power Networks has delivered efficient costs for its work when it is the consumers who would be bearing the extra costs. We recognize that both stakeholders are also concerned about the possibility of increased expenditure in the future.[24]

We acknowledge the concerns raised in the submissions. Although, consultation with consumers in the development of the standards is not a part of our assessment of prudency and efficiency. Our assessment of the scope and costs of the proposed works will ensure

[21] SA Power Networks, *IR03 SAPN response – April 2022 emergency standard cost pass through*, 20 July 2022
[22] SA Power Networks, *Attachment IR03 1_AER workshop presentation*, 20 July 2022
[23] SA Power Networks, IR03 Enhanced Voltage Management – Calculations for Estimate AER, 16 August 2022
[24] Dr Andrew Nance, Submission on SAPN cost pass through application, April 2022
SACOSS, Submission on SAPN cost pass through application, May 2022

that consumers will only pay for work we find to be prudent and efficient.

In another submission from Red Energy, the possibility of recovering costs as part of SA Power Networks' annual pricing proposal was raised. We have assessed this possibility and found that the timing would not suit the timeframe for determining FY2022-23 prices.

4.4.4 Approved positive pass through amount

While we have accepted SA Power Networks' proposed pass through application and associated costs, we have amended the incremental revenue for this pass through to $5.8 million ($nominal) to reflect an updated PTRM provide by SA Power Networks. This reflects a lower revenue compared to SAPN's initial proposal of $6.8 million ($nominal).

Our analysis of SA Power Networks' initial proposal identified a number of modelling issues in SA Power Networks' proposed cost pass through PTRM. SA Power Networks did not:

- use the latest published return on debt updated PTRM in calculating the incremental revenue.
- include a proportional increase to its forecast immediate expensing of capex for tax purposes, reflecting the increased capex from the cost pass through.

In response to an information request on the above issues, SA Power Networks agreed to our modeling corrections in using the 2022–23 return on debt updated PTRM and provided additional information on forecast immediate expensing of capex.

Our determination is therefore to approve a positive pass through amount of $5.8 million ($nominal, smoothed), to be recovered over the remaining 2 years of the 2020–25 period. Table 3 details our determination on the incremental revenue from the cost pass through.

Table 3 Approved incremental revenue for the April 2022 Emergency Standards event ($million, nominal)

	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Return on capital	–	0.4	0.5	0.9	1.3	3.1
Return of capital (regulatory depreciation)	–	0.4	0.5	1.1	1.6	3.6
Net tax allowance	–0.1	–0.1	–0.2	–0.3	–0.2	–0.9
Incremental annual revenue requirement (unsmoothed)	–0.1	0.8	0.7	1.7	2.7	5.7
Incremental annual expected revenue (smoothed)	**–**	**–**	**–**	**2.9**	**2.9**	**5.8**

Source: AER's analysis.
Note: '–' represents zero.

4.5 Timing of cost pass through recovery

SA Power Networks has proposed to recover the incremental revenue arising from its cost pass through application over the remaining two years of its 2020–25 regulatory control period.

We are satisfied that this approach will minimise volatility in SA Power Networks' revenue requirements while still allowing it to recover its efficient costs in a timely manner.

5 NER requirements and stakeholder submissions

For a cost pass through to be determined, there must be a positive change event that results in an eligible pass through amount. SA Power Networks can then submit a pass through application that must address certain matters specified in the NER.[25] We make a determination on SA Power Networks' cost pass through application and determine the approved pass through amount and the regulatory years in which that pass through amount is to be recovered.[26]

For the reasons set out in Table 4 below, we are satisfied that a positive change event has occurred, and that SA Power Networks' application relating to the Emergency Standards specifies the necessary matters required by the NER. Additionally, after consideration of the factors set out in Table 5 below, we are satisfied the appropriate pass through amount is $5,823,637 ($nominal, smoothed), to be recovered over the two remaining regulatory years of SA Power Networks' 2020-25 regulatory control period.

Table 4: Requirements for determining a positive change event has occurred

Requirement of the NER	Our consideration
Is the pass through event a regulatory change event, service standard event, tax change event, or retailer insolvency event?[27]	Yes, we are satisfied that the cost pass through event constitutes a service standard event.
Is the pass though event a contingent project or a trigger event associated with a contingent project?[35]	No.
Does the pass through relate to any other event specified in SA Power Networks' 2020–25 distribution determination as a pass through event for that determination?[28]	No. There were no pass through events nominated in SA Power Networks' 2020-25 distribution determination.
Was the pass through event a consequence of acts or omissions of SA Power Networks?[29]	SA Power Networks contributed to the development of the scope of the Emergency Standards. However, the South Australian Government drafted and published the Emergency Standards to manage DER capacity.
Did the cost pass through event entail SA Power Networks incurring materially higher costs in providing direct control services than it would have incurred but for the event?[30]	Yes. As evidenced in Table 2, we consider the additional costs incurred by SA Power Networks in providing direct control services as a result of the Emergency Standards meet the materiality threshold for the 2020–21 regulatory year. SA Power Networks' annual revenue requirement (unsmoothed) for the 2021–22 regulatory year during the first year committed to upgrades was $9.1 million ($nominal), 1.2% of the annual revenue requirement for the regulatory year and exceeding the materiality threshold.
What is the date on which the positive change event occurred?	We consider the positive change event to have occurred on 21 December 2021.

[25] NER, cl. 6.6.1(c).
[26] NER, cl. 6.6.1 (d).
[27] NER, cll. 6.6.1(a1)(1) through 6.6.1(a1)(4); and chapter 10.
[28] NER,cl. 6.6.1(a1)(5)
[29] NER, cl. 6.6.1(j)(5)
[30] That is, does it meet the definition of a "positive change event" as defined in chapter 10 of the Rules.

Requirement of the NER	Our consideration
Did SA Power Networks submit a written statement of its pass through application within 90 business days of the positive change event occurring?[31]	Yes. As discussed in section 4.3, we received SA Power Networks' pass through application on 7 April 2022, which was within 90 business days after the positive change event occurred.
Did SA Power Networks specify details of the positive change event, including the date on which the event occurred, in its written statement?[32]	Yes. SA Power Networks' written statement is available on our website.[33] As stated in section 4.3, we consider the event to have occurred on 21 December 2021.
Did SA Power Networks specify in its written statement the eligible pass through amount, the proposed positive pass through amount, and the amounts proposed to be recovered from customers in each regulatory year?[34]	Yes. SA Power Networks proposed an eligible, positive pass through amount of $30.5 million ($June 2020), with $6.8 million ($June 2020) to be recovered from consumers in the last two years of the current regulatory control period: 2023–24 to 2024-25.[35]
Did SA Power Networks specify in its written statement evidence of the actual and likely increase in costs that occurred solely as a consequence of the positive change event?[36]	Yes. SA Power Networks' pass through application (that is, its written statement) set out the costs it incurred as a result of the Emergency Standards, as well as how it calculated its proposed pass through amount.[37]
Was there a regulatory information instrument applicable to the pass through application?[38]	Yes, three formal information requests were sent to SA Power Networks to clarify the information provided and expand on what was the scope of their work.
Is the pass through amount, in whole or in part, in respect of expenditure for a restricted asset?[39]Was there a regulatory information instrument applicable to the pass through application?[40]	No.

Source: AER's analysis

[31] NER, cl. 6.6.1(c).
[32] NER, cl 6.6.1(c)(2).
[33] https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/sa-power-networks-cost-pass-through-emergency-standards-2021%E2%80%9322
[34] NER, cll. 6.6.1(c)(3), 6.6.1(c)(4), and 6.6.1(c)(5).
[35] This has been adjusted to $5.8 million ($nominal, smoothed) as reflected in section 4.4.4 of this report.
[36] NER, cl. 6.6.1(c)(6).
[37] SA Power Networks, *SA Power Networks – PTRM – Pass through capex – April 2022,* 27 April 2022.
[38] NER, 6.6.1(c)(7).
[39] NER, cl. 6.6.1(c1) and (d2).
[40] NER, 6.6.1(c)(7).

Table 5: Factors that the AER is to consider under the NER when determining a positive pass through amount

Relevant factors under cl. 6.6.1(j)	AER consideration
In making the pass through determination we must take into account the matters and proposals set out in SA Power Networks' written statement.[41]	This decision sets out how we have considered the matters and proposals in SA Power Networks' pass through application (written statement).
We must take into account the incremental increase in costs in providing direct control services resulting from the pass through event.[42]	In section 4.4 above we set out our assessment of the costs incurred by SA Power Networks as a consequence of the Emergency Standards. Our determination ensures that SA Power Networks only recovers any actual or likely increment in costs, to the extent that such an increment is solely as a consequence of the pass through event.
We must take into account the efficiency of SA Power Networks' decisions and actions in relation to the risk of the event.[43]	In making this determination, we must take into account the efficiency of SA Power Networks' decisions and actions in relation to the risk of the positive change event, including whether SA Power Networks has failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount, or omitted to take any action where such action has increased the magnitude of the amount. We do not have sufficient evidence to consider that SA Power Networks' decisions and actions in relation to the risk of the positive change events were inefficient. We believe SA Power Networks has acted early and prior to the pass through event for the purpose of mitigating risk to its power systems.
We must take into account the time cost of money.[44]	To account for the recovery of the pass through amount over two years commencing from 2023–24, we have used the nominal rate of return, as determined in SA Power Networks' 2020–25 distribution determination, as well as a forecast inflation of 2.27 per cent to calculate the approved pass through amount in nominal terms.
We must take into account the need to ensure that the pass through amount reflects only costs incurred solely as a consequence of the publication of the Emergency Standards.[45]	Our approach of to the pass through amount reflects only the costs incurred as a result of the publication of the Emergency Standards, including compliance with those Standards, and not the costs incurred as a result of other positive change events, business-as-usual costs, or costs of increasing the scope of network services provided by SA Power Networks. We found no evidence to suggest that the costs included in SA Power Networks' application were not solely incurred because of the Emergency Standards.
We must take into account whether the costs of the pass through event have already been factored into the calculation of the Distribution Network Service Provider's annual revenue requirement for the regulatory control period in which the pass through event occurred or will be factored into the calculation of the Distribution Network Service Provider's annual revenue requirement for a subsequent regulatory control period[46]	We have provided revenue for SA Power Networks to recover in the last two years of its current regulatory period, 2023-24 and 2024-25, to complete the remaining upgrades for UFLS relays.

[41] NER, cl. 6.6.1(j)(1).
[42] NER, cl. 6.6.1(j)(2).
[43] NER, cl. 6.6.1(j)(3).
[44] NER, cl. 6.6.1(j)(4).
[45] NER, cl. 6.6.1(j)(5).
[46] NER, cl. 6.6.1(j)(7).

Relevant factors under cl. 6.6.1(j)	AER consideration
We must take into account the extent to which SA Power Networks' costs have already been funded by previous pass through determinations.[47]	We do not consider the costs that SA Power Networks has proposed have been included in the 2020-25 determination.
We must take into account any other factors that we consider relevant.[48]	We have published stakeholder submissions on our website.[49] We received submissions from Red Energy, the South Australian Council off Social Service and Dr Andrew Nance. As stated in section 4.4.3, we acknowledge the concerns raised in the submissions. Although, consultation with consumers in the development of the standards is not a part of our assessment of prudency and efficiency. Our assessment of the scope and costs of the proposed works will ensure that consumers will only pay for work we find to be prudent and efficient. We have considered Red Energy's submission regarding recovering costs through the annual pricing mechanism rather than have costs immediately recovered. Our assessment determined that this would not be possible due to the timing of the pricing proposal for the relevant regulatory period having already passed.

Source: AER's analysis

[47] NER, cl. 6.6.1(j)(7A).
[48] NER, cl. 6.6.1(j)(8).
[49] https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/sa-power-networks-cost-pass-through-emergency-standards-2021%E2%80%9322/initiation

Glossary

Term	Definition
AER	Australian Energy Regulator
Capex	Capital Expenditure
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
Opex	Operating Expenditure