

11 Pass Through Events

11.1 Introduction

This chapter sets out the nominated and other pass through events proposed by Powerlink for the 2027-32 regulatory period. The pass through event mechanism in the National Electricity Rules (Rules) is intended to provide an efficient means for a network service provider to recover the efficient costs of uncontrollable material events that either cannot be insured or where the establishment of self-insurance is not economically viable.

Key highlights:

- We take a holistic approach to identify and manage our risks in the most cost-effective way for customers and Powerlink. We assess if and how risks can be efficiently mitigated through a balance of commercial insurance, self-insurance and pass through events.
- Having regard to the current insurance market, we nominate the following pass through events for the 2027-32 regulatory period:
 - Insurance coverage event
 - Insurer credit risk event
 - Natural disaster event, and
 - Terrorism event.
- We have proposed a \$0 network alternative support allowance within our operating expenditure forecast (refer Chapter 5 Operating Expenditure) and will seek a pass through in the event that material network support costs are incurred within the period.

11.2 Regulatory requirements

The Rules¹⁸⁷ allow for the following pass through events:

1. A regulatory change event
2. A service standard event
3. A tax change event
4. An insurance event, and
5. Any other event specified in a transmission determination as a pass through for the determination.

The pass through event mechanism allows a TNSP to nominate additional pass through events as part of a Revenue Proposal, referred to as a nominated pass through event. In proposing nominated pass through events, we have had regard to the considerations set out in Chapter 10 of the Rules¹⁸⁸.

The nominated pass through event considerations are:

- (a) *whether the event proposed is an event covered by a category of pass through event specified in clause 6.6.1(a1)(1) to(4) (in the case of a distribution determination) or clause 6A.7.3(a1)(1) to(4) (in the case of a transmission determination);*

¹⁸⁷ National Electricity Rules, clause 6A.7.3(a1).

¹⁸⁸ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

- (b) *whether the nature or type of event can be clearly identified at the time the determination is made for the service provider;*
- (c) *whether a prudent service provider could reasonably prevent an event of that nature or type from occurring or substantially mitigate the cost impact of such an event;*
- (d) *whether the relevant service provider could insure against the event, having regard to:*
 - (1) *the availability (including the extent of availability in terms of liability limits) of insurance against the event on reasonable commercial terms; or*
 - (2) *whether the event can be self-insured on the basis that:*
 - (i) *it is possible to calculate the self-insurance premium; and*
 - (ii) *the potential cost to the relevant service provider would not have a significant impact on the service provider's ability to provide network services; and.*
- (e) *any other matter the AER considers relevant and which the AER has notified Network Service Providers is a nominated pass through event consideration.*

We have provided information on how we consider each of the nominated pass through events meet these considerations in the following sections.

Pass through events can lead to an increase or decrease in costs (a positive or negative change event). The change in costs must exceed 1% of Maximum Allowed Revenue (MAR) in the relevant year before a Transmission Network Service Provider (TNSP) can seek a determination from the Australian Energy Regulator (AER) for pass through of those costs¹⁸⁹. For Powerlink, based on the MAR forecast in our Revenue Proposal, this threshold would be approximately \$10 million to \$11 million.

11.3 Nominated pass through events

As identified above, the Rules allow a TNSP to nominate pass through events as part of a Revenue Proposal. The considerations for a nominated pass through event are defined in Chapter 10 of the Rules¹⁹⁰. We have had regard to these considerations in the development of our nominated pass through events and have identified how we consider each nominated pass through satisfies these considerations in the following sections.

We take a holistic approach to the identification and management of our risks. We manage our risk profile with a suite of preventative, detective and mitigating controls. A key component of this strategy is the development and maintenance of an insurance program. To ensure an optimal balance of cover in the most cost-effective way for customers and Powerlink, we consider the complementary nature of commercial insurance coverage, self-insurance and pass through events. This holistic approach has guided the development of this Revenue Proposal.

Among the considerations that we must have regard to under the Rules for our nominated pass through events is the extent to which the event can be insured or self-insured¹⁹¹.

We engaged our insurance broker, Marsh Pty Ltd (Marsh), to advise us on our insurance and risk management approach for the 2027-32 regulatory period, including any risks that may need to be addressed as a pass through

¹⁸⁹ National Electricity Rules, Chapter 10, definition of *materially*.

¹⁹⁰ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

¹⁹¹ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

event (refer Appendix 5.06). Our proposed approach to insurance and self-insurance is addressed as part of our operating expenditure forecast (refer Chapter 5 Operating Expenditure).

Based on Marsh's advice, we propose the following nominated pass through events for the 2027-32 regulatory period:

- Insurance coverage event
- Insurer credit risk event
- Natural disaster event, and
- Terrorism event.

Powerlink proposed the first three events in its Revenue Proposal for the 2022-27 regulatory period. Marsh recommended an additional event given the increasing risk of act of terrorism events (refer Chapter 5 Operating Expenditure). This type of nominated pass through is common among other TNSPs and Distribution Network Service Providers (DNSPs) and has been accepted by the AER in other recent determinations¹⁹².

The following sections set out our proposed definition and justification for each of these events. We consider that our nominated pass through events are consistent with the Rules¹⁹³.

11.3.1 Insurance coverage event

We propose an insurance coverage event to mitigate the risk of liability losses that exceed, and/or are not covered due to gaps in, our insurance coverage, for example, where there is a lack of coverage available, coverage is withdrawn or reasonable commercial terms cannot be secured.

We consider the nominated pass through event complies with the considerations set out in Chapter 10 of the Rules¹⁹⁴:

- The proposed insurance coverage event is not a pass through event specified in the Rules¹⁹⁵.
- We consider that the nature and type of event can be clearly identified at the time the AER makes its determination.
- Liability events such as bushfire could result in losses that exceed the limit of cover on existing liability insurance policies. The occurrence of an insurance coverage event is not foreseeable, has a low probability of occurrence but a high cost impact. We cannot fully prevent these types of events from occurring, noting that while we invest, operate and maintain our network to withstand such events, we cannot substantially mitigate their cost impact.
- We have insurance coverage based on reasonable commercial terms and set our insurance limits based on credible risk-based scenario analysis, worst or maximum foreseeable loss studies and professional insurance broker advice. We consider it would not be efficient to obtain additional insurance beyond a prudent, risk-based limit of cover.
- We cannot control movements and insurer appetite in the insurance liability market, where those movements mean that it is no longer possible to take out an insurance policy (or set of insurance policies) at all or in part, or on reasonable commercial terms.

¹⁹² Final Decisions for Energex (2025), Ergon Energy (2025), TasNetworks (2024), TransGrid (2023) and ElectraNet (2023), AusNet Services transmission (2022).

¹⁹³ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

¹⁹⁴ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

¹⁹⁵ National Electricity Rules, Clause 6A.7.3(a1).

- It would also be inefficient to seek an additional self-insurance allowance as such a reserve may need to be maintained for a significant period of time, noting that in practice it may never be required.

Our proposed definition for this event is shown in Table 11.1.

Table 11.1 - Proposed definition of insurance coverage event

An Insurance Coverage Event occurs if:

6. Powerlink:

- a. makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or
- b. would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and

7. Powerlink incurs costs:

- a. beyond a relevant policy limit for that policy or set of insurance policies; or
- b. that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and

8. The costs referred to in paragraph 2 above materially increase the costs to Powerlink in providing prescribed transmission services.

For the purposes of this insurance coverage event:

- 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of Powerlink, where those movements mean that it is no longer possible for Powerlink to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.
- 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:
 - i. the limit not been exhausted; or
 - ii. those costs not been unrecoverable due to changed circumstances.
- A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which Powerlink was regulated; and
- Powerlink will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of Powerlink in relation to any aspect of Powerlink's network or business; and
- Powerlink will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of Powerlink in relation to any aspect of Powerlink's network or business.

Note for the avoidance of doubt, in assessing an insurance coverage event through application under Clause 6A.7.3 of the Rules, the AER will have regard to:

- The relevant insurance policy or set of insurance policies for the event;
- The level of insurance that an efficient and prudent Network Service Provider (NSP) would obtain, or would have sought to obtain, in respect of the event; and
- Any information provided by Powerlink to the AER about Powerlink's actions and processes; and
- Any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.

11.3.2 Insurer credit risk event

We propose an insurer credit risk event would be triggered where an insurer becomes insolvent and Powerlink is consequently subject to additional costs than allowed under the insurance policy with that insurer.

We consider the nominated pass through event complies with the considerations set out in the Rules¹⁹⁶:

- The proposed insurer credit risk event is not a pass through event specified in the Rules¹⁹⁷.
- We consider that the nature and type of event can be clearly identified at the time the AER makes its determination.
- We set minimum requirements for the credit rating of participating underwriters and apportion our policies across domestic and international providers. This combination provides a level of risk mitigation against a potential Insurer Credit Risk event. However, we are not able to control whether one or more of our insurers become insolvent.
- We cannot obtain insurance on reasonable commercial terms to cover the occurrence of this type of event. In addition, we are not able to calculate a reasonable self-insurance premium for this event as it would be relative to the claim for a risk that was insured by the insolvent insurer.

Our proposed definition for this event is shown in Table 11.2.

Table 11.2 - Proposed definition of insurer credit risk event

An Insurer Credit Risk event occurs if:

- An insurer of Powerlink becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Powerlink:
 - is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or
 - incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.

Note: In assessing an Insurer Credit Risk event pass through application, the AER will have regard to, amongst other things:

- Powerlink's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and
- in the event that a claim would have been covered by the insolvent insurer's policy, whether Powerlink had reasonable opportunity to insure the risk with a different insurer.

11.3.3 Natural disaster event

We propose a natural disaster risk event would be triggered where we could not obtain insurance coverage on reasonable commercial terms and the disaster caused a material increase in costs to Powerlink.

We consider the nominated pass through event complies with the considerations set out in the Rules¹⁹⁸:

- The proposed natural disaster risk event is not a pass through event specified in the Rules¹⁹⁹.
- We consider that the nature and type of event can be clearly identified at the time the AER makes its determination.

¹⁹⁶ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

¹⁹⁷ National Electricity Rules, Clause 6A.7.3(a1).

¹⁹⁸ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

¹⁹⁹ National Electricity Rules, Clause 6A.7.3(a1).

- Natural disaster events, by definition, cannot be prevented or avoided. We employ a range of strategies to minimise and mitigate the exposure of the transmission network to natural disasters. These include a broad range of technical preventative measures, such as asset siting and design, continuous asset monitoring and maintenance activities along with existing insurance cover. Given the potential increase in natural catastrophe event frequency and intensity, and subsequent premium changes, we consider it prudent to continue to review the level of insurance coverage, deductibles and limits over the 2027-32 regulatory period.
- Movements in the insurance market may result in situations where it is no longer possible to take out an insurance policy, (or a set of insurance policies) at all, or to do so on reasonable commercial terms. This is particularly relevant for Towers and Lines insurance, which is a bespoke product with few insurers in the insurance market offering coverage.
- To manage this risk, we consider it prudent and efficient to optimise our level of insurance coverage supported by both self-insurance and a natural disaster event pass through.

Our proposed definition for this event is shown in Table 11.3.

Table 11.3 - Proposed definition of natural disaster risk event

Natural Disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2027-32 regulatory control period that changes the costs to Powerlink in providing prescribed transmission services, provided the fire, flood or other event was:

- a consequence of an act or omission that was necessary for Powerlink to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or
- not a consequence of any other act or omission of Powerlink.

Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:

- whether Powerlink has insurance against the event; and
- the level of insurance that an efficient and prudent NSP would obtain in respect of the event.

11.3.4 Terrorism event

We propose a terrorism risk event would be triggered where an unforeseen act of terrorism for which Powerlink did not have insurance against caused a material increase in costs to Powerlink.

We consider the nominated pass through event complies with the considerations set out in the Rules²⁰⁰:

- The proposed terrorism risk event is not a pass through event specified in the Rules²⁰¹.
- We consider that the nature and type of event can be clearly identified at the time the AER makes its determination.
- Terrorism events are unpredictable and cannot be prevented or avoided. We employ a range of strategies to minimise and mitigate the exposure of the transmission network to terrorism, including actions we take to ensure the physical and electronic (cyber) security of our transmission network. While these actions assist to withstand such events, an act of terrorism could significantly impact on the cost of maintaining or restoring reliable supply of our prescribed transmission services.

²⁰⁰ National Electricity Rules, Chapter 10, definition of *nominated pass through event considerations*.

²⁰¹ National Electricity Rules, Clause 6A.7.3(a1).

- The low frequency and potentially very high costs of a terrorism event make it challenging to insure against such events, with many insurers excluding or limiting cover. Whilst a level of terrorism insurance is currently in place, the cover provided and how it would respond to an event is uncertain. Terrorism insurance options are subject to ongoing review and analysis and general insurer appetite in underwriting this type of cover is reducing, with very limited alternative options which will impact its ongoing commercial viability. In addition, we are not able to calculate a reasonable self-insurance premium for this event.

Our proposed definition for this event is shown in Table 11.4.

Table 11.4 - Proposed definition of terrorism event

Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

- from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and
- changes the costs to Powerlink in providing prescribed transmission services.

Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things:

- whether Powerlink has insurance against the event;
- the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and
- whether a declaration has been made by a relevant government authority that a terrorism event has occurred.

11.4 Network support pass through

We may be required to make a payment to a generator or other entity for the provision of network support services during the 2027-32 regulatory period.

Under the Rules²⁰², we can seek a determination from the AER for a pass through of any differences in costs between the amount included in the annual revenue requirement and actual efficient costs associated with network support events.

Given the inherent uncertainty in the need for such services, we have proposed a \$0 network alternative support allowance for the 2027-32 regulatory period and will estimate annual system security network support payments in accordance with the Rules. If network alternative support is required and can be justified within the period, we will seek a network support pass through from the AER at that time (refer Chapter 5 Operating Expenditure).

²⁰² National Electricity Rules, Clause 6A.7.2.