

# Draft Decision

**TasNetworks**

**Electricity Transmission**

**Determination 2024 to 2029**

**(1 July 2024 to 30 June 2029)**

**Attachment 13**

**Pass through events**

**September 2023**

© Commonwealth of Australia 2023

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Tel: 1300 585 165

AER reference: AER212491

#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	28 September 2023	14

## Contents

<b>13</b>	<b>Pass through events .....</b>	<b>1</b>
13.1	Draft decision.....	1
13.2	TasNetworks’ proposal .....	2
13.3	Assessment approach .....	4
13.4	Interrelationships .....	5
13.5	Reasons for draft decision .....	7
	<b>Shortened forms.....</b>	<b>14</b>

## 13 Pass through events

During the regulatory control period TasNetworks can apply to pass through to its customers, in the form of higher or lower network charges, certain material changes in its efficient costs caused by pre-defined exogenous events. These events are called cost pass through events. Such events are limited to circumstances where the business can recover potential costs of defined yet unpredictable high-cost events that are outside the control of the business.<sup>1</sup>

The National Electricity Rules (NER) prescribe the following pass through events for all transmission determinations:<sup>2</sup>

- a regulatory change event
- a service standard event
- a tax change event
- an insurance event
- an inertia shortfall event.<sup>3</sup>

In addition to these prescribed events, other pass through events may be 'nominated' by a service provider for a regulatory control period.<sup>4</sup> This attachment sets out our draft decision on the nominated pass through events to apply to TasNetworks' transmission network for the 2024–29 regulatory control period.

### 13.1 Draft decision

Our draft decision is to:<sup>5</sup>

- accept four of the five proposed nominated pass through events (terrorism, insurance coverage, insurer's credit risk, natural disaster) but with amended definitions to provide greater drafting consistency between TasNetworks and other network service providers.<sup>6</sup>

---

<sup>1</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 2.

<sup>2</sup> NER, cl. 6A.7.3(a1)(1)–(4) and (6). Each of these prescribed events is defined in Chapter 10 (Glossary) of the NER.

<sup>3</sup> This type of event does not apply in Victoria (see NER, cl 5.20B.4(a)).

<sup>4</sup> NER, cl. 6A.7.3(a1)(5).

<sup>5</sup> NER, cl. 6A.14.1(9).

<sup>4</sup> AER, *Final decision, ElectraNet transmission determination 2023 to 2028, Attachment 13 Pass through events*, April 2023, pp. 5–7; AER, *Final decision, Transgrid transmission determination 2023 to 2028, Attachment 13 Pass through events*, April 2023, pp. 5–7; AER, *Draft decision, Powerlink transmission determination 2022 to 2027, Attachment 12 Pass through events*, September 2021, p. 13; AER, *Final decision, AusNet Services transmission determination 2022 to 2027, Attachment 13 Pass through events*, September 2021, pp. 6–7.

<sup>6</sup> AER, *Final decision, ElectraNet transmission determination 2023 to 2028, Attachment 13, Pass through events*, April 2023, pp. 5–7; AER, *Final decision, Transgrid transmission determination 2023 to 2028, Attachment 13, Pass through events*, April 2023, pp. 5–7; AER, *Draft decision, Powerlink transmission determination 2022 to 2027, Attachment 12, Pass through events*, September 2021, pp. 13–14; AER, *Final decision, AusNet Services transmission determination 2022 to 2027, Attachment 13, Pass through events*, January 2022, pp. 6–7.

- Accept the proposed Renewable Energy Zone (REZ) design report nominated pass through event, but amend the proposed definition to include factors the AER is to consider when assessing a cost pass through application.

Our reasons are set out in section 13.5 and our amended definitions in Table 13.2.

## 13.2 TasNetworks' proposal

TasNetworks' proposed nominated pass through events are set out in Table 13.1.

**Table 13.1 TasNetworks' proposed nominated pass through events**

Proposed event	TasNetworks' proposed definition
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> <li>1. TasNetworks:           <ol style="list-style-type: none"> <li>(a) makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy (in whole or in part) or set of insurance policies; or</li> <li>(b) would have been able to make a claim or claims under a relevant insurance policy (in whole or in part) or set of insurance policies but for changed circumstances;</li> </ol> </li> <li>2. TasNetworks incurs costs:           <ol style="list-style-type: none"> <li>(a) both within and beyond the relevant policy limit or set of insurance policies; or</li> <li>(b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and</li> </ol> </li> <li>3. The costs referred to in point 2 above materially increase the costs to TasNetworks in providing direct control or prescribed transmission services.</li> </ol> <p>For this insurance coverage event:</p> <ul style="list-style-type: none"> <li>• 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of TasNetworks, where those movements mean that it is not possible for TasNetworks to take out an insurance policy (in whole or in part) 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.</li> <li>• 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:           <ul style="list-style-type: none"> <li>– the claimable component up to the limit not been exhausted; or</li> <li>– those costs not been unrecoverable due to changed circumstances.</li> </ul> </li> <li>• a relevant insurance policy is an insurance policy (in whole or in part) or set of insurance policies held during the 2024–2029</li> </ul>

Proposed event	TasNetworks' proposed definition
	<p>regulatory control period or a previous regulatory control period in which TasNetworks was regulated.</p> <ul style="list-style-type: none"> <li>TasNetworks will be deemed to have made a claim on a relevant insurance policy (in whole or in part) or set of insurance policies if the claim is made by a related party of TasNetworks in relation to any aspect of TasNetworks' network or business.</li> </ul>
Insurer's credit risk event	<p>An insurer credit risk event occurs if an insurer of TasNetworks becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, TasNetworks:</p> <ul style="list-style-type: none"> <li>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</li> <li>incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.</li> </ul>
Natural disaster event	<p>Natural disaster event means any natural disaster (including but not limited to cyclone, fire, flood or earthquake) that occurs during the 2024–2029 regulatory control period that increases the costs to TasNetworks of providing direct control and, or, prescribed services, provided the cyclone, fire, flood, earthquake or other event was:</p> <ul style="list-style-type: none"> <li>a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or</li> <li>not a consequence of the negligent acts or omissions of the service provider.</li> </ul>
Terrorism event	<p>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:</p> <ul style="list-style-type: none"> <li>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</li> <li>materially increases the costs to TasNetworks in providing direct control services and/or, prescribed services.</li> </ul>
REZ design report event	<p>A REZ design report event occurs if AEMO requires TasNetworks to prepare one or more REZ design report(s) during the 2024–2029 regulatory control period in accordance with clause 5.24.1(b) of the National Electricity Rules, giving rise to additional costs to TasNetworks, the recovery of which was not included in the maximum allowed revenue that TasNetworks may earn from the provision of prescribed transmission services during the 2024–2029 regulatory control period.</p>

Source: TasNetworks, *Combined proposal Attachment 17 - Pass through events*, January 2023, pp. 3–9.

## 13.3 Assessment approach

The NER set out how we must assess nominated pass through events, and how we must assess an application from a service provider to pass through changes in costs where an event occurs.<sup>7</sup>

Our assessment approach is guided by the National Electricity Objective (NEO)<sup>8</sup> and the Revenue and Pricing Principles (RPPs).<sup>9</sup> The RPPs include that the service provider should have a reasonable opportunity to recover at least the efficient costs of providing services and complying with regulatory obligations.<sup>10</sup> The NEO and the RPPs also reflect the importance of incentives to promote economic efficiency, and balance the risks of under and over investment.

In the context of pass through events, we have particular regard to the impact on price, quality, reliability and security of supply that may arise as a result of any change in the efficient operation of, and ability and incentive of, a service provider to invest in its network. This is a similar approach to that taken by the Australian Energy Market Commission (AEMC) when considering pass through event rule changes.<sup>11</sup>

In determining whether we accept a nominated pass through event, we must take into account the 'nominated pass through event considerations' as defined,<sup>12</sup> which are as follows:<sup>13</sup>

- 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);
- 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

---

<sup>7</sup> NER, cl. 6A.6.9(b), 6A.7.3.

<sup>8</sup> The NEO is defined in s. 7 of the NEL.

<sup>9</sup> The revenue and pricing principles are set out in s. 7A of the NEL.

<sup>10</sup> NEL, s. 7A(2).

<sup>11</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 6.

<sup>12</sup> NER, cl. 6A.6.9(b).

<sup>13</sup> NER, Chapter 10, definition of 'nominated pass through event considerations'.

- 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.

The AEMC described the purpose of the nominated pass through event considerations as:

... to incorporate and reflect the essential components of a cost pass through regime in the NER. It was intended that in order for appropriate incentives to be maintained, any nominated pass through event should only be accepted when event avoidance, mitigation, commercial insurance and self-insurance are unavailable.<sup>14</sup>

... that a pass through event should only be accepted when it is the least inefficient option and event avoidance, mitigation, commercial insurance and self-insurance are found to be inappropriate. That is, it is included after ascertaining the most efficient allocation of risks between a service provider and end customers.<sup>15</sup>

This protects the incentive regime under the NER by limiting erosion of a service provider's incentives to use market based mechanisms to mitigate the cost impacts that would arise.<sup>16</sup>

This promotes the efficient investment in, and efficient operation and use of, network services for the long term interests of consumers with respect to price.<sup>17</sup>

As a matter of good regulatory practice, we also take into account the desirability of consistency in our approach to assessing nominated pass through events across our electricity determinations and gas access arrangements.<sup>18</sup>

## 13.4 Interrelationships

The pass through mechanism is not the only way service providers can manage their risks under a distribution or transmission determination. It is interrelated with other parts of this decision, in particular with the forecast operating and capital expenditure (opex and capex) and rate of return included in our revenue determination. We must specify and take account of these interrelationships.<sup>19</sup> This requires us to balance the incentives in the various parts of our decision.

---

<sup>14</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 19.

<sup>15</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 20.

<sup>16</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 8.

<sup>17</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 8.

<sup>18</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 18.

<sup>19</sup> NEL, s. 16(1)(c).



For systemic risks, service providers are compensated through the allowed rate of return. Service providers also face business-specific, or residual, risks. Service providers are compensated for the prudent and efficient management of these risks through the forecast opex and capex we include in our revenue determination for strategies such as:

- prevention (avoiding the risk)
- mitigation (reducing the probability and impact of the risk)
- insurance (transferring the risk to another party)
- self-insurance (putting aside funds to manage the likely costs associated with a risk event).

An efficient business will manage its risk by employing the most cost-effective combination of these strategies. In order to maintain appropriate incentives under our determinations, we only accept nominated pass through events where we are satisfied that event avoidance, mitigation, commercial insurance and self-insurance under approved forecasts of prudent and efficient opex and capex are either unavailable or inappropriate.<sup>20</sup>

In general, in respect of unforeseen costs that are relatively minor, a service provider should manage them by using up its existing expenditure allowance, or reprioritising or substituting its projects, to avoid seeking cost recovery through the pass through mechanisms.<sup>21</sup> This is reflected in the materiality threshold that applies to cost pass through applications.<sup>22</sup>

Cost pass through amounts approved in a regulatory control period are added to (or in the case of a negative pass through deducted from) forecast opex and capex for the purpose of calculating efficiency carryover amounts under the Efficiency Benefit Sharing Scheme and Capital Expenditure Sharing Scheme.<sup>23</sup>

Any capex that has already been recovered in a regulatory control period by way of a cost pass through cannot be recovered again in the roll-forward of the regulatory asset base for the next regulatory control period.<sup>24</sup>

---

<sup>20</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, pp. 19–20.

<sup>21</sup> AEMC, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Position Paper*, 29 November 2012, p. 186.

<sup>22</sup> NER, Chapter 10, definition of 'materially'.

<sup>23</sup> AER, *Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*, November 2013, p. 7; AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, November 2013, p. 6.

<sup>24</sup> NER, cl. S6A.2.1(f)(1)(ii).

## 13.5 Reasons for draft decision

### 13.5.1 Insurance coverage, insurer's credit risk, natural disaster and terrorism events

We consider that TasNetworks' proposed terrorism, natural disaster, insurer's credit risk and insurance coverage pass through events are consistent with the nominated pass through event considerations set out in the NER:<sup>25</sup>

- the proposed events are not covered by an existing category of pass through event
- the nature of the events are clearly identifiable at this time
- a prudent service provider could not reasonably prevent an event of that nature or type from occurring or substantially mitigate its cost impact and could not insure (or self-insure) against the events on reasonable commercial terms.

With regard to the latter point, while TasNetworks could take steps to reduce its risk exposure to these events, expenditure beyond a certain level aimed at completely eliminating the risk is likely to be imprudent or inefficient. In that context, sharing the risk between TasNetworks and its customers is appropriate and more likely to be in the long-term interests of consumers with respect to price.

While we accept the proposed terrorism, natural disaster, insurer's credit risk and insurance coverage cost pass through events, we do not accept the changes to their definition proposed by TasNetworks. This is to provide greater drafting consistency between TasNetworks and other network service providers as set out in Table 13.2.

#### 13.5.1.1 Insurance coverage event

TasNetworks proposed minor amendments to the definition of the insurance coverage event but did not explain its reasoning for the proposed changes. For example (see Table 13.1 compared with Table 13.2):

- in 1(a) TasNetworks added 'in whole or in part' when referring to 'makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy (*in whole or in part*) or set of insurance policies'
- when defining 'costs', TasNetworks added 'the claimable component up to' in (i)
- TasNetworks omitted 'for the purposes of this insurance coverage event' when setting out the meaning of 'change of circumstances'.

We have not adopted these incremental changes to this definition, to maintain consistency in the definition of this event between TasNetworks and other network service providers. As noted earlier, TasNetworks did not explain the purpose of these amendments.

#### 13.5.1.2 Insurer's credit risk

TasNetworks proposed one change to the definition of the insurer's credit risk event but did not explain its reasoning for the proposed change. It added '...prior to taking out the relevant insurance Policy' in (i) when referring to the factors the AER is to consider when reviewing a

---

<sup>25</sup> NER, cl. 6A.6.9(b); Chapter 10, definition of 'nominated pass through event considerations'.

cost pass through application for the insurer's credit risk event (see Table 13.1 compared to Table 13.2).

We have maintained our current definition for greater drafting consistency between TasNetworks and other network service providers.

### 13.5.1.3 Terrorism event

TasNetworks proposed minor amendments to the definition of the terrorism event, but did not explain its reasoning for the proposed changes. For example (see Table 13.1 compared to Table 13.2):

- TasNetworks included 'materially increases the costs to TasNetworks in providing direct control services' instead of 'changes the costs to TasNetworks in providing direct control services.'
  - We amended the definition of terrorism event to reflect the symmetry between positive and negative cost pass through events reflected in the NER and add clarity.<sup>26</sup> Consequently we do not accept TasNetworks' proposed change.
- TasNetworks omitted one of the factors the AER is to take into account when reviewing a cost pass through application for a terrorism event. We have added it back.
  - The factor omitted is 'iii. whether a declaration has been made by a relevant government authority that a terrorism event has occurred.'

### 13.5.1.4 Natural disaster event

TasNetworks proposed amendments to the definition of the natural disaster event. While these changes are minor, we do not accept them to maintain greater drafting consistency between TasNetworks and other network service providers.

- In (b) TasNetworks referred to 'not a consequence of the negligent acts or omissions of the service provider' rather than 'not a consequence of any other act or omission' as set out in our definition.
- TasNetworks included '... that increases the costs to TasNetworks of providing direct control services...' instead of '... that changes the costs to TasNetworks in providing direct control services...' (see Table 13.1 compared to Table 13.2).
  - We amended the definition of natural disaster event to reflect the symmetry between positive and negative cost pass through events reflected in the NER and add clarity.<sup>27</sup> Consequently we do not accept TasNetworks' proposed change (see Table 13.1 compared to Table 13.2).

---

<sup>26</sup> NER, cl. 6A.7.3 (a)–(b); AER, *Final decision, Jemena 2021–26 Attachment 15, Pass through events*, April 2021, p. 10; AER, *Final Decision, AusNet Services Distribution Determination 2021–26, Attachment 15, Pass through events*, April 2021, p. 11; AER, *Final Decision, CitiPower Distribution Determination 2021–26, Attachment 15, Pass through events*, April 2021, pp. 10–11.

<sup>27</sup> NER, cl. 6A.7.3 (a)–(b); AER, *Final decision, Jemena 2021–26 Attachment 15, Pass through events*, April 2021, p. 10; AER, *Final Decision, AusNet Services Distribution Determination 2021–26, Attachment 15, Pass through events*, April 2021, p. 11; AER, *Final Decision CitiPower Distribution Determination 2021–26, Attachment 15, Pass through events*, April 2021, pp. 10–11.

### 13.5.2 REZ design report event

The REZ design report cost pass through event is a new event which TasNetworks proposed is to be triggered if:

- AEMO requires TasNetworks to undertake the preparation of a REZ design report during the 2024–2029 regulatory control period
- TasNetworks will incur increased costs in preparing that REZ design report
- the costs of preparing that REZ design report were not incorporated into the revenue that may be earned by TasNetworks from the provision of prescribed transmission services during the 2024–2029 regulatory control period.

TasNetworks proposed to apply the materiality threshold to this new event. It also proposed the materiality threshold be considered across regulatory years when reviewing a cost pass through application for REZ design report costs. TasNetworks submitted that while the additional costs relating REZ reports are likely to be significant, they may still not qualify for a positive change event in a given regulatory year (e.g., if the preparation of REZ report and associated costs are spread across more than one regulatory year).<sup>28</sup>

Our draft decision is to accept the REZ design report event proposed by TasNetworks for the reasons set out below. However, for more clarity relative to TasNetworks' proposal, we have added the following factor to the definition approved in this draft decision.

- In assessing a REZ design reports event pass through application, the AER will have regard to, amongst other things, whether a given project or projects relating to REZ design reports was (were) forecast in the TNSP's previous revenue determination.

We consider the proposed REZ design report event broadly satisfies the nominated cost pass through considerations under the NER,<sup>29</sup> for example:

- whether the event proposed is an event covered by a category of pass through event specified in NER
  - the proposed event is unlikely to be covered by any of the prescribed pass through events specified NER
- whether the nature or type of event can be clearly identified at the time the determination is made for the service provider
  - while it may not be possible to clearly identify certain aspects of the proposed event, we acknowledge that TasNetworks may be required to prepare and publish REZ design reports under the NER.<sup>30</sup>

We also consider that TasNetworks' proposal is broadly consistent with the Energy Security Board (ESB)'s view on cost recovery relating to REZ design reports.

---

<sup>28</sup> TasNetworks, *Combined proposal Attachment 17 - Pass through events*, January 2023, pp. 7–9.

<sup>29</sup> NER, Chapter 10, definition of 'nominated pass through event considerations'.

<sup>30</sup> NER, cl. 5.24.2.

The ESB recommended that the cost pass through mechanism applies in the event that the TNSP is required to prepare a REZ design report, and the AER did not forecast the project in the TNSP's previous revenue determination.<sup>31</sup> Based on the above considerations we accept the REZ design report event is to apply to TasNetworks over the 2024–29 regulatory control period.

However, we do not accept TasNetworks proposal to consider the materiality threshold across regulatory years when reviewing a cost pass through application for REZ design report costs because this is inconsistent with the NER, which define the materiality.

For the purposes of the application of clause 6A.7.3, an event (other than a network support event) results in a Transmission Network Service Provider incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the Transmission Network Service Provider 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 maximum allowed revenue for the Transmission Network Service Provider **for that regulatory year**.<sup>32</sup> (emphasis added)

We note the ESB's view, which indicated it may be reasonable for TNSPs to group the costs of multiple REZ design reports from an Integrated System Plan (ISP) together in a single application as it is more likely the incremental costs would meet the materiality threshold.<sup>33</sup> We agree that multiple REZ design reports can be grouped together in a single application as long as this occur within the same year as per the NER requirement.

Table 13.2 summarises the nominated pass through events we have accepted in this draft decision.

**Table 13.2 AER pass through event definitions**

Pass through event	Approved definition
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> <li>1. TasNetworks: <ol style="list-style-type: none"> <li>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</li> <li>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</li> </ol> </li> <li>2. TasNetworks incurs costs: <ol style="list-style-type: none"> <li>a) beyond a relevant policy limit for that policy or set of insurance policies; or</li> </ol> </li> </ol>

<sup>31</sup> ESB, *Energy Security Board Renewable Energy Zones planning, Final recommendations*, February 2021, p. 3.

<sup>32</sup> NER, Chapter 10, definition of 'materially'.

<sup>33</sup> ESB, *Energy Security Board Renewable Energy Zones planning, Final recommendations*, February 2021, p. 16.

Pass through event	Approved definition
	<p>b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and</p> <p>3. The costs referred to in paragraph 2 above materially increase the costs to TasNetworks in providing prescribed transmission services.</p> <p>For the purposes of this insurance coverage event:</p> <ul style="list-style-type: none"> <li>• 'changed circumstances' means movements in the relevant insurance market, including liability insurance, that are beyond the control of TasNetworks, where those movements mean that it is no longer possible for TasNetworks 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.</li> <li>• 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: <ul style="list-style-type: none"> <li>– the limit not been exhausted; or</li> <li>– those costs not been unrecoverable due to changed circumstances.</li> </ul> </li> <li>• 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 TasNetworks was regulated; and</li> <li>• TasNetworks 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 TasNetworks in relation to any aspect of TasNetworks network or business; and</li> <li>• TasNetworks 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 TasNetworks in relation to any aspect of TasNetwork's network or business.</li> </ul> <p>Note: For the avoidance of doubt, in assessing an insurance coverage event through application under rule 6A.7.3(j), the AER will have regard to:</p> <ol style="list-style-type: none"> <li>i) the relevant insurance policy or set of insurance policies for the event;</li> <li>ii) the level of insurance that an efficient and prudent TNSP would obtain, or would have sought to obtain, in respect of the event;</li> <li>iii) any information provided by TasNetworks to the AER about TasNetwork's actions and processes; and</li> <li>iv) any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.</li> </ol>
Insurer's credit risk event	<p>An insurer credit risk event occurs if an insurer of TasNetworks becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, TasNetworks:</p> <ol style="list-style-type: none"> <li>a) 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</li> </ol>

Pass through event	Approved definition
	<p>b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.</p> <p>Note: In assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things:</p> <p>i) TasNetworks attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and</p> <p>ii) in the event that a claim would have been covered by the insolvent insurer's policy, whether TasNetworks had reasonable opportunity to insure the risk with a different provider.</p>
Natural disaster event	<p>Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2024–29 regulatory control period that changes the costs to TasNetworks in providing prescribed transmission services, provided the cyclone, fire, flood, earthquake or other event was:</p> <p>a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or</p> <p>b) not a consequence of any other act or omission of the service provider.</p> <p>Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:</p> <p>i) whether TasNetworks has insurance against the event;</p> <p>ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event.</p>
Terrorism event	<p>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:</p> <p>1. 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</p> <p>2. changes the costs to TasNetworks in providing prescribed transmission services.</p> <p>Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things:</p> <p>i) whether TasNetworks has insurance against the event;</p> <p>ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and</p> <p>iii) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.</p>

Pass through event	Approved definition
REZ design reports	<p>A REZ design report event occurs if AEMO requires TasNetworks to prepare one or more REZ design report(s) during the 2024–29 regulatory control period in accordance with clause 5.24.1(b) of the NER, giving rise to additional costs to TasNetworks that are material, the recovery of which was not included in the maximum allowed revenue that TasNetworks may earn from the provision of prescribed transmission services during the 2024–29 regulatory control period.</p> <p>Note: In assessing a REZ design reports event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> <li>i) whether a given project or projects relating to REZ design reports was (were) forecast in the TNSP’s previous revenue determination</li> <li>ii) the relevant ISP relating to the proposed REZ design reports.</li> </ul>

Source: AER analysis



## Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
capex	Capital expenditure
ESB	Energy Security Board
ISP	Integrated System Plan
NEL	national electricity law
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	Operating expenditure
REZ	Renewable energy zone
RPP	Revenue and pricing principles
TNSP	Transmission Network Service Provider

---