

Draft Decision

TasNetworks

Electricity Distribution

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 15
Pass through events

September 2023

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15 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.

The National Electricity Rules (NER) prescribe the following pass through events for all distribution determinations:¹

- a regulatory change event
- a service standard event
- a tax change event
- a retailer solvency event.

In addition to these prescribed events, other pass through events may be 'nominated' by a service provider for a regulatory control period.² This attachment sets out our draft decision on the nominated pass through events to apply to TasNetworks' distribution network for the 2024–29 regulatory control period.

15.1 Draft decision

Our draft decision is to:³

- 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 consistency between TasNetworks and other network service providers.⁴ Our amended definitions are set out in Table 15.2.
- not accept the proposed AEMO participant fee structure nominated pass through event.

Our reasons are set out in section 15.5 and our amended definitions in Table 15.2.

15.2 TasNetworks' proposal

TasNetworks' proposed nominated pass through events are set out in Table 15.1.

¹ NER, cl. 6.6.1(a1)(1)–(4). Each of these prescribed events is defined in Chapter 10 (Glossary) of the NER.

² NER, cl. 6.6.1(a1)(5).

³ This is one of the constituent decisions we must make under NER, cl 6.12.1(14).

⁴ E.g. AER, *Final Decision, AusNet Distribution Determination 2021–26, Attachment 15 Pass through events*, April 2021, pp. 16–19; AER, *Final Decision CitiPower Distribution Determination 2021–26, Attachment 15 Pass through events*, April 2021, pp. 13–16.

Table 15.1 TasNetworks' nominated pass through events

Proposed event	TasNetwork's proposed definition
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> 1. TasNetworks: <ol style="list-style-type: none"> (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 (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; 2. TasNetworks incurs costs: <ol style="list-style-type: none"> (a) both within and beyond the relevant policy limit or set of insurance policies; or (b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and 3. The costs referred to in point 2 above materially increase the costs to TasNetworks in providing direct control or prescribed transmission services. <p>For this insurance coverage event:</p> <ul style="list-style-type: none"> • '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. • '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"> – the claimable component up to the limit not been exhausted; or – those costs not been unrecoverable due to changed circumstances. • a relevant insurance policy is an insurance policy (in whole or in part) or set of insurance policies held during the 2024–2029 regulatory control period or a previous regulatory control period in which TasNetworks was regulated. • 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.
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</p>

Proposed event	TasNetwork's proposed definition
	<p>potential claim for a risk that was insured by the insolvent insurer, TasNetworks:</p> <ul style="list-style-type: none"> • 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.
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"> • 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 • not a consequence of the negligent acts or omissions of the service provider.
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"> • 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 • materially increases the costs to TasNetworks in providing direct control services and/or, prescribed services.
AEMO participant fee structure event	<p>An AEMO participant fee structure event occurs if AEMO makes a determination in relation to its electricity market participant fee structure that requires DNSPs to contribute to the recovery of AEMO's core NEM function costs during the 2024–2029 regulatory control period, increasing the costs to TasNetworks of providing direct control services.</p>

Source: TasNetworks, *Combined proposal 2024–2029 - Attachment 17 - Pass through events*, January 2023, pp. 3–6.

15.3 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.⁵

Our assessment approach is guided by the National Electricity Objective (NEO)⁶ and the Revenue and Pricing Principles (RPPs).⁷ 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.⁸ 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.⁹

In determining whether we accept a nominated pass through event, we must take into account the 'nominated pass through event considerations' as defined,¹⁰ which are as follows:¹¹

- 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:

⁵ NER, cl. 6.5.10(b), 6.6.1.

⁶ The NEO is defined in s. 7 of the NEL.

⁷ The revenue and pricing principles are set out in s. 7A of the NEL.

⁸ NEL, s. 7A(2).

⁹ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 6.

¹⁰ NER, cl. 6.5.10(b).

¹¹ NER, *Chapter 10, definition of 'nominated pass through event considerations'*.

- 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.

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.¹²

...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 consumers.¹³

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. 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.¹⁴

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.¹⁵

15.4 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

¹² AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 19.

¹³ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 20.

¹⁴ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 8.

¹⁵ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 18.

specify and take account of these interrelationships.¹⁶ This requires us to balance the incentives in the various parts of our decision.

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.¹⁷

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.¹⁸ This is reflected in the materiality threshold that applies to cost pass through applications.¹⁹

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.²⁰

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.²¹

¹⁶ NEL, s. 16(1)(c).

¹⁷ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, pp. 19–20.

¹⁸ AEMC, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Rule Determination*, 29 November 2012, p. 186.

¹⁹ NER, *Chapter 10, definition of 'materially'*.

²⁰ 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.

²¹ NER, cl. S6.2.1(e)(1)(ii).

15.5 Reasons for draft decision

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

We consider 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:²²

- 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 15.2.

15.5.1.1 Insurance coverage event

TasNetworks proposed amendments to the definition of the insurance coverage event, but did not explain its reasoning for the proposed changes. For example (see Table 15.1 compared to Table 15.2):

- 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.

²² NER, cl. 6.5.10(b); *Chapter 10, definition of 'nominated pass through event considerations'*.

15.5.1.2 Insurer credit risk event

TasNetworks proposed one change to the definition of insurer 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 cost pass through application for the insurer's credit risk event (see Table 15.1 compared to Table 15.2).

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

15.5.1.3 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 15.1 compared to Table 15.2):

- 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.²³ 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.'

15.5.1.4 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 15.1 compared to Table 15.2).
 - We have amended the definition of natural disaster event to reflect the symmetry between positive and negative cost pass through events reflected in

²³ NER, cl. 6.6.1 (a)–(b); AER, *Final decision, Jemena 2021–26 Attachment 15, Pass through events*, April 2021, p. 10; AER, *Final Decision, AusNet 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.

the NER and add clarity.²⁴ Consequently we do not accept TasNetworks' proposed change (see Table 15.1 compared to Table 15.2).

15.5.2 AEMO participant fee structure event

TasNetworks proposed a pass through event for an 'AEMO participant fee structure event', which would be triggered by a change in AEMO's electricity market participant fee structure that leads to an allocation of AEMO's core NEM function costs to distribution network service providers (DNSPs).²⁵

AEMO recently reviewed its electricity market participant fee structure for the period 2021–26 (AEMO's 2021 electricity fee structure final report) and determined to charge participant fees to transmission network service providers (TNSPs) but not to DNSPs.²⁶ However, AEMO stated it will review the structure of fees, including the level of involvement network service providers, afresh for future fee structure periods based on the circumstances at the time. AEMO added that should the level of DNSP involvement increase materially during the next fee period (2026–31) as a result of a major change, (e.g., in response to regulatory changes), then a declared NEM project consultation process could be undertaken to determine future charging of DNSPs.²⁷

TasNetworks considers the potential introduction of participant fee allocations for DNSPs during the 2024–29 regulatory control period creates a step change risk for TasNetworks and its customers, should a direct pass-through mechanism not be allowed.²⁸

We do not accept the proposed AEMO participant fee structure event based on our assessment of TasNetworks' proposal against the NER considerations relating to nominated cost pass through events which are set out in the following points.²⁹

- Is the event proposed an event covered by a category of pass through event specified in clause 6.6.1(a1)(1) to (4) of the NER?
 - We consider that the proposed event or triggers are unlikely to be covered by the existing nominated cost pass through events.
- Can the nature or type of event be clearly identified at the time the determination is made for the service provider?

²⁴ NER, cl. 6.6.1 (a)–(b); AER, *Final decision, Jemena 2021–26 Attachment 15, Pass through events*, April 2021, p. 10; AER, *Final Decision, AusNet 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.

²⁵ TasNetworks, *Combined Proposal 2024-2029 - Attachment 17 - Pass through events*, 31 January 2023, p. 6.

²⁶ AEMO, *Electricity Fee Structures Final Report and Determination*, March 2021, pp. 16–19.

²⁷ AEMO, *Electricity Fee Structures Final Report and Determination*, March 2021, p. 16.

²⁸ TasNetworks, *Combined Proposal 2024-2029 - Attachment 17 - Pass through events*, 31 January 2023, p. 6.

²⁹ NER, *Chapter 10, definition of 'nominated pass through event considerations'*.

- We are satisfied that the nature or type of event is clearly identified and TasNetworks has explained a potential link between AEMO participant fees and potential changes in its costs of providing direct control services.
- Could a prudent service provider reasonably prevent an event of that nature or type from occurring or substantially mitigate the cost impact of such an event?
 - We consider TasNetworks is unlikely to reasonably prevent AEMO participant fees being charged or substantially mitigate their cost impact. We acknowledge the ongoing energy transition and its implications for network service providers.
- Is there any other matter the AER considers relevant and which the AER has notified Network Service Providers is a nominated pass through event consideration?
 - We consider there is a substantial level of uncertainty around AEMO charging participant fees to DNSPs within the 2024–29 regulatory period. On this basis and for the reasons discussed in the following paragraphs, we do not accept TasNetworks' proposal. TasNetworks has acknowledged this uncertainty.

We acknowledge it is possible the level of DNSPs' involvement in AEMO's activities and operations could increase during the 2021–26 regulatory control period. However, it is questionable as to whether an increase would automatically result in AEMO charging participant fees to DNSPs within the 2024–29 regulatory period, and also whether individual nominated pass through events for each DNSP would be the optimal regulatory approach in those circumstances. Relevantly:

- given the level of involvement of DNSPs in AEMO's activities and operations was significantly less than that of TNSPs, this would need to change materially and be subject to further consideration and consultation before participant fees are allocated to DNSPs.
 - The cost allocation survey undertaken by AEMO, as part of its review, indicated that the level of DNSPs' involvement in AEMO's activities and operations is significantly less than that of TNSPs (3% versus 17%).³⁰
- a potential future allocation of participant fees to DNSPs is unlikely to result in a material change in costs, noting the much higher 17% allocation to TNSPs was itself immaterial (less than 1% of annual revenue) for some TNSPs.
- the introduction of charging for participant fees to TNSPs was delayed by two years to allow time for TNSPs to seek transitional arrangements to recover these fees.
 - We anticipate similar arrangements would be made for DNSPs, should AEMO decide to allocate fees to DNSPs in the future.
- on 20 October 2022, the AEMC made a rule change establishing a new mechanism to allow TNSPs to directly pass on the cost of AEMO participant fees.

³⁰ AEMO, *Electricity Fee Structures Final Report and Determination*, March 2021, p. 16.

From 1 July 2023, TNSPs will be able to directly pass on the cost of participant fees over a transitional period ranging from four to six years.³¹ For TasNetworks (transmission), the AEMC specified a transitional period of six years, until 2028–29.

- In making its decision relating to participant fees for TNSPs, the AEMC considered alternative transitional options, including a nominated cost pass through process but concluded the direct recovery approach is more administratively efficient than a cost pass through.³²

We consider the above points provide a precedent for how AEMO and the AEMC could implement a decision to allocate participant fees to DNSPs in future. We also note that none of the other distribution businesses involved in the ongoing determinations (e.g., Ausgrid, Evoenergy, Essential Energy, Endeavour) has raised this matter, though this issue is of relevance to all DNSPs.

For the above reasons, we do not accept the proposed AEMO participant fee structure event for the 2024–29 regulatory control period.

Table 15.2 summarises the nominated pass through events accepted by us in the draft decision.

Table 15.2 AER pass through event definitions

Pass through event	Draft decision definition
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> 1. TasNetworks: <ol style="list-style-type: none"> 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 2. TasNetworks incurs costs: <ol style="list-style-type: none"> 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 3. The costs referred to in paragraph 2 above materially increase the costs to TasNetworks in providing direct control services. <p>For the purposes of this insurance coverage event:</p>

³¹ AEMC, *Rule determination Recovering the cost of AEMO's participant fees*, 20 October 2022, p. i.

³² AEMC, *Rule determination Recovering the cost of AEMO's participant fees*, 20 October 2022, pp. 25–26.

Pass through event	Draft decision definition
	<ul style="list-style-type: none"> • 'changed circumstances' means movements in the relevant insurance liability market 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. • '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"> – the limit not been exhausted; or – 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 TasNetworks was regulated; and • 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 • 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 TasNetworks' network or business. <p>Note for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6.6.1(j), the AER will have regard to:</p> <ul style="list-style-type: none"> i) the relevant insurance policy or set of insurance policies for the event ii) the level of insurance that an efficient and prudent DNSP would obtain, or would have sought to obtain, in respect of the event; and iii) any information provided by TasNetworks to the AER about TasNetworks' actions and processes; and iv) any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.
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"> 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 b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.

Pass through event	Draft decision definition
	<p>Note: in assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> 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 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.
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 direct control services, provided the cyclone, fire, flood, earthquake or other event was:</p> <ul style="list-style-type: none"> 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 b) not a consequence of any other act or omission of the service provider. <p>Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i) whether TasNetworks has insurance against the event; ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event.
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> <ol style="list-style-type: none"> 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 2. changes the costs to TasNetworks in providing direct control services. <p>Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i) whether TasNetworks has insurance against the event; ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and iii) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.

Source: AER analysis

Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
DNSP	Distribution network service provider
NEL	National electricity law
NEM	National electricity market
NEO	National electricity objective
NER	National electricity rules
NSP	Network service provider
Opex	Operating expenditure
RPP	Revenue and pricing principles
