

Draft decision on Electricity Transmission Determination for Basslink 2026 to 2030 (1 July 2026 to 30 June 2030)

Attachment 9 Pass through events

September 2025

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Note

This attachment forms part of the Australian Energy Regulator's (AER's) draft decision on the transmission determination that will apply to Basslink for the 2026–30 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Opening regulatory asset base

Attachment 2 – Capital expenditure

Attachment 3 – Operating expenditure

Attachment 4 – Efficiency benefit sharing scheme

Attachment 5 – Capital expenditure sharing scheme

Attachment 6 – Service target performance incentive scheme

Attachment 7 – Pricing methodology

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Attachment 9 – Pass through events

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9 Pass through events

During the regulatory control period Basslink 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 transmission determinations:¹

- a regulatory change event
- a service standard event
- a tax change event
- an insurance 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 Basslink for the 2026–30 regulatory control period (2026–30 period).

9.1 Draft decision on pass through events

Basslink nominated six pass throughs events: Insurance coverage event, Insurer credit risk event, Natural disaster event, Terrorism event, Renewable Energy Zone (REZ) design report event and Offshore project assessment event.³ event

Basslink also indicated that it will nominate an allowance to recover system security network support payments under new NER provisions in its revised proposal.⁴ This network support allowance will be an annual adjustment (rather than a nominated event in a revenue determination under NER cl.6A.7.3(a1)(5). We have provided the detail that we have of this allowance to enable stakeholders' feedback on it.

Our draft decision is to accept the insurer's credit risk event and natural disaster event proposed by Basslink.⁵

While we also accept the proposed insurance coverage and terrorism events, we do not accept the proposed amendments to the definition of these events that change the

¹ NER, cl. 6A.7.3(a1)(1)–(4).

² NER, cl. 6A.6.9(a) and 6A.7.3(a1)(5).

³ APA, [Basslink Transmission Proposal: Attachment 11 – Cost pass throughs](#), September 15, 2023, p 202.

⁴ APA, Response to Information Request #007, received 30 September 2024, pp 8-11; cl. 6A.23.3(h)(2), 6A.7.2.

⁵ This is one of the constituent decisions we must make under NER, cl. 6A.14.1(9).

definitions from what we have approved in other decisions. In our view, the issues that Basslink’s proposed amendments seek to address are already captured in our current definitions.⁶ We discuss our considerations in section 9.5.1.

We do not accept Basslink’s proposed REZ design report event and Offshore project assessment event. We consider that it is not appropriate to define these events. With respect to the REZ design report event, Basslink is not the entity tasked with undertaking the REZ design report (see section 13.5.2). In relation to the Offshore project assessment event the regulatory responsibility and the cost of assessing any likely impact of proposed development on Basslink sits with the proponent and not with Basslink (see section 13.5.3).

Our event definitions for this draft decision are set out in Table 9–1.

9.2 Basslink’s proposal

Basslink’s proposed nominated pass through events are set out in Table 9–1.

Table 9–1 Basslink’s nominated pass through events

Proposed event	Basslink’s proposed definition ⁷
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> 1. Basslink: <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. Basslink 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 Basslink in providing prescribed transmission services. <p>For the purposes of this insurance coverage event:</p> <p>'changed circumstances' means movements in the relevant insurance market since the acquisition of the insurance policy or set of insurance policies that applied during the majority of Basslink’s base year and that are beyond the reasonable control of Basslink, where those</p>

⁶ For example, AER, [Draft Decision Attachment 13 Pass through events – TasNetworks - 2024–29 Transmission revenue proposal](#), September 2023, pp 7–8.

⁷ Basslink’s proposed definitions for pass through are sourced from APA, , [Basslink Transmission Proposal: Attachment 11 – Cost pass throughs](#), 15 September 2023.

Proposed event	Basslink's proposed definition ⁷
	<p>movements result in it no longer being prudent or efficient for Basslink to take out with a reputable insurer:</p> <ul style="list-style-type: none"> i. a relevant insurance policy; or ii. in the case of a set of insurance policies, one or more layers of insurance within that set (or there are otherwise one or more gaps within the set), either at all or on commercial terms reasonable to Basslink. <p>'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:</p> <ul style="list-style-type: none"> i. the limit not been exhausted; ii. those costs not been unrecoverable due to changed circumstances. <p>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 Basslink was regulated; and</p> <ul style="list-style-type: none"> i. Basslink 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 Basslink in relation to any aspect of Basslink's network or business; and ii. Basslink 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 Basslink in relation to any aspect of Basslink's network or business. <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> <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 Transmission Network Service Provider (TNSP) would obtain, or would have sought to obtain, in respect of the event; iii. any information provided by Basslink to the AER about Basslink's 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 credit risk event	An insurer credit risk event occurs if an insurer of Basslink becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Basslink:

Proposed event	Basslink's proposed definition ⁷
	<p>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</p> <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. Basslink'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</p> <p>ii. In the event that a claim would have been covered by the insolvent insurer's policy, whether Basslink 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 2026–30 regulatory control period that changes the costs to Basslink 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 Basslink 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 Basslink.</p> <p>Note: In assessing a natural disaster event pass through application, the AER will have regard to, among other things:</p> <p>i. whether Basslink has insurance against the event, and</p> <p>ii. the level of insurance that an efficient and prudent Network Service Provider 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, or a malicious act to access and/or disrupt computer systems or other information communication technologies including operational technology systems) 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>a) 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>

Proposed event	Basslink's proposed definition ⁷
	<p>b) changes the costs to Directlink 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> <ul style="list-style-type: none"> i. whether Basslink has insurance against the event; ii. the level of insurance that an efficient and prudent Network Service Provider 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.
REZ design report event	<p>A REZ design report event occurs if:</p> <ul style="list-style-type: none"> a) Basslink is required to commence preparation of one or more Renewable Energy Zone (REZ) design reports in accordance with clause 5.24.1(b) of the National Electricity Rules; and b) Basslink will incur additional material costs in preparing for one or more offshore project assessment events, the recovery of which was not included in the maximum allowed revenue that Basslink may earn from the provision of prescribed transmission services during the 2026-2030 regulatory control period. <p>Note: in assessing a REZ design report event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> 1. the need to ensure that Basslink has a reasonable opportunity to recover the total efficient costs of an offshore project assessment event; and <p>the urgency of the request to complete the assessment and/or report(s).</p>
Offshore project assessment event	<p>An offshore project assessment event occurs if:</p> <ul style="list-style-type: none"> a) Basslink is required to commence preparation of one or more assessment reports for an offshore resource project(s) within 2 nautical miles either side of Basslink (being 4 nautical miles in total); and b) Basslink will incur additional material costs in preparing for one or more offshore project assessment events, the recovery of which was not included in the maximum allowed revenue that Basslink may earn from the provision of prescribed transmission services during the 2026-2030 regulatory control period. <p>Note: in assessing an offshore project assessment pass through application, the AER will have regard to, amongst other things:</p>

Proposed event	Basslink's proposed definition ⁷
	<p>a. the need to ensure that Basslink has a reasonable opportunity to recover the total efficient costs of an offshore project assessment event; and</p> <p>a. the urgency of the request to complete the assessment and/or report(s).</p>

Source: Basslink, *Basslink Transmission Revenue Proposal*, 15 September 2023, pp. 204, 206, 207, 209, 2011, 2013.

9.3 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.⁸

Our assessment approach is guided by the National Electricity Objective (NEO)⁹ and the Revenue and Pricing Principles (RPPs).¹⁰ 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.¹¹ The NEO and the RPPs also reflect the importance of incentives to promote economic efficiency,¹² and balance the risks of under and over investment.¹³

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 AEMC when it considered amendments to the pass through provisions in the NER.¹⁴

In determining whether we accept a nominated pass through event, we must take into account the 'nominated pass through event considerations' which are as follows:¹⁵

- 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);

⁸ NER, cl. 6A.6.9(b), 6A.7.3.

⁹ The NEO is defined in s. 7 of the NEL.

¹⁰ The revenue and pricing principles are set out in s. 7A of the NEL.

¹¹ NEL, s. 7A(2).

¹² NEL, s. 7A(3).

¹³ NEL, s. 7A(6).

¹⁴ AEMC 2012, Cost Pass through arrangements for Network Services Providers, Rule Determination, 2 August 2012, p. 6.

¹⁵ NER, Chapter 10: Glossary, 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.

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.¹⁶

...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.¹⁷

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.¹⁸

¹⁶ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 19.

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

¹⁸ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 8.

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.¹⁹

9.4 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.²⁰ 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.²¹

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.²² This is reflected in the materiality threshold that applies to cost pass through applications.²³

¹⁹ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 18.

²⁰ NEL, s. 16(1)(c).

²¹ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, pp. 19–20.

²² AEMC, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Position Paper*, 29 November 2012, p. 186.

²³ NER, Chapter 10: Glossary, definition of ‘materially’.

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.²⁴

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.²⁵

9.5 Reasons for draft decision

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

We consider Basslink's proposed terrorism, natural disaster, insurer's credit risk and insurance coverage pass through events²⁶ are consistent with the nominated pass through event considerations set out in the NER.²⁷

- 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 Basslink 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 Basslink and consumers is appropriate and more likely to be in the long-term interests of consumers with respect to price.

We accept the cost pass through events proposed by Basslink for the insurer's credit risk event and natural disaster event.²⁸

While we accept the insurance coverage and terrorism events proposed by Basslink, we have amended the proposed definitions to align with our definitions for these events for other network service providers. This will better maintain consistency in the treatment of these events across the NEM.

²⁴ AER, *Efficiency benefit sharing scheme*, November 2013, p 7; AER, *Capital Expenditure Incentive Guideline*, August 2025, p 3.

²⁵ NER, cl. S6A.2.1(f)(1)(ii).

²⁶ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, pp 204, 206, 207, 209.

²⁷ NER, cl. 6A.6.9(b); NER, Chapter 10: Glossary, definition of 'nominated pass through event considerations'.

²⁸ AER, [Draft Decision Attachment 13 - Pass through events – TasNetworks - 2024–29 Transmission revenue proposal](#), September 2023, pp. 7–8.

9.5.1.1 Definition of insurance coverage event

While the proposed insurance coverage event is largely consistent with our definition approved in other determinations,²⁹ Basslink did not include our definition of ‘changed circumstances’ in its proposal. Basslink proposed to define ‘changed circumstances’ as follows:³⁰

‘changed circumstances’ means movements in the relevant insurance market since the acquisition of the insurance policy or set of insurance policies that applied during the majority of Basslink’s base year and that are beyond the reasonable control of Basslink, where those movements result in it no longer being prudent or efficient for Basslink to take out with a reputable insurer:

- i. a relevant insurance policy; or
- ii. in the case of a set of insurance policies, one or more layers of insurance within that set (or there are otherwise one or more gaps within the set), either at all or on commercial terms reasonable to Basslink.

While Basslink’s proposal included a different definition which proposed to include reference to insurance held during the base year, and where it would no longer be prudent or efficient for Basslink to take out insurance,³¹ we consider the definitions approved in other determinations addresses the same core issues with a balanced approach. The key definitions are as follows:

‘changed circumstances’ means movements in the relevant insurance market, including liability insurance, that are beyond the control of Basslink, where those movements mean that it is no longer possible for Basslink 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.

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 Basslink was regulated.

We have previously considered our definitions for ‘changed circumstances’ and ‘relevant insurance policy or set of insurance policies’ in some detail.³² Our draft decision is to apply our current definition for this event for greater consistency between Basslink and other network service providers.

²⁹ See Table 9.2.

³⁰ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, p 204.

³¹ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, pp 204.

³² AER, *Final Decision - Jemena distribution determination 2021–26 - Attachment 15 - Pass through events*, April 2021, pp 8–10.

9.5.1.2 Terrorism event

Basslink proposed to define the terrorism event as follows:³³

Terrorism event means an act (including, but not limited to, the use of force or violence, or the threat of force or violence, or a malicious act to access and/or disrupt computer systems or other information communication technologies including operational technology systems) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

- a) 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
- b) changes the costs to Basslink in providing prescribed transmission services.

Basslink considered its proposed wording to be broadly consistent with recent AER decisions.³⁴ Basslink stated its proposed new definition for a terrorism event:

- took account of its insurance broker's view that the global insurance market for cyber risk is rapidly evolving, and that it is increasingly challenging to obtain coverage for cyber-terrorism
- considered recent AER terrorism event definitions which refer only to physical acts, which creates uncertainty in relation to non-physical terrorist events³⁵
- explicitly includes reference to computer systems and information communication technologies³⁶ to make clear cyber terrorist attacks fall within the terrorism event definition.

We have considered similar proposals to broaden the definition of the terrorism event in recent decisions. For example, in our recent final decision for Endeavour Energy we stated:³⁷

We consider it important that a service provider retain the incentives to invest efficiently in its system to guard against cyber-security threats, as well as to explore all available market-based mechanisms such as insurance and risk mitigation strategies. We have expressed our concern in our recent determinations that broadening the definition of terrorism event in the manner proposed by network service providers and along the lines commented by Endeavour Energy, may erode incentives on network

³³ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, pp 209.

³⁴ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, p 209.

³⁵ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, p 210.

³⁶ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, pp 209-210.

³⁷ AER, *Final Decision Attachment 15 - Pass through events - Endeavour Energy -2024–29 Distribution revenue proposal*, April 2024, pp 4–7.

service providers to seek alternative mechanisms to mitigate the cost impacts that may arise.³⁸

Basslink operates important national infrastructure and is subject to stringent cyber security compliance requirements. We consider Basslink and other network service providers should have appropriate safeguards and contingency plans in place to substantially mitigate the risks and cost impacts of major cyber-attacks. To support this, our determinations have generally included in our capex and/or opex forecasts additional expenditure proposed by network service providers, to further enhance their capability to proactively identify, protect, detect, respond to, and recover from cyber security threats.

Also, we do not agree with Basslink's view that the existing definition of the terrorism event refers only to physical acts. We note that the definition states that a terrorism event means an act 'including, but not limited to, the use of force or violence'. We therefore consider the event definition already allows for recovery of costs related to cyber attacks where the other elements of the definition are satisfied.

Our draft decision is to not accept Basslink's proposed definition for the terrorism event. For the reasons outlined above we have not adopted Basslink's proposed definition, but rather we have maintained our current definition of terrorism event in this draft decision. This outcome provides greater consistency for this event between Basslink and other network service providers in the NEM.

9.5.2 REZ design report event

Basslink proposed the Renewable Energy Zone (REZ) design report event pass through event to recover costs incurred in preparing a REZ design report. Basslink stated that AEMO may request that Basslink prepare a design report for a REZ in Tasmania, as input into the development of an ISP in the 2026–30 regulatory period.³⁹

Under NER cl. 5.24.1(b), it is the jurisdictional planning body, which in relation to Tasmania is TasNetworks, that would be tasked by AEMO to undertake such a report. As Basslink is not the jurisdictional planning body we do not consider that it would be required to prepare a REZ report and so would not incur these costs. We note that NER cl. 5.24.1(d) requires that the jurisdictional planning body consult with stakeholders, such as Basslink, in preparing the REZ report.

We consider that Basslink will not be the party subject to the requirement to prepare a REZ design report and the proposed event is reasonably unlikely to occur. On that basis, we do not consider that this constitutes a pass through event, as contemplated in NER cl. 6A.7.3. We therefore do not approve the inclusion of this proposed pass through event in this revenue determination.

³⁸ AER, *Final Decision Attachment 15 - Pass through events - Endeavour Energy -2024–29 Distribution revenue proposal*, April 2024, p 6.

³⁹ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, pp 210-12.

9.5.3 Offshore project assessment event

Basslink proposed the Offshore project assessment event to recover the costs of doing a project impact assessment for a development which is proposed within a 2 nautical mile radius of Basslink. Basslink stated that it is concerned that a development which is proposed to be within a 2 nautical mile radius of Basslink may compromise its operation. Basslink proposed this pass through event so it could recover the cost of this type of impact assessment where it is not able to recoup these costs from a proponent.⁴⁰

The Victorian Government, in relation to development in Victorian waters, has land and seabed access and tenure requirements.⁴¹ The Commonwealth Government, in relation to development in Commonwealth waters, requires licensing and approval of a management plan. Part of the management plan requirement is the interaction and consultation with other marine users.⁴² The Tasmanian Government, in relation to development in Tasmanian waters, is finalising the drafting of the *Energy Co-ordination and Planning Amendment (Renewable Energy Zones) Bill 2024*, after which it will be considered by the Tasmanian Parliament. This Bill provides for conditions to be imposed on infrastructure proponents connecting and accessing Tasmanian waters.⁴³

We consider that the regulatory responsibility and the cost of assessing any likely impact of proposed development on Basslink sits with the proponent, and not with Basslink. We do not consider the prudence of the proposed offshore project assessment pass through event has been established on the basis of the information provided by Basslink. We therefore have not included the proposed pass through event in our revenue determination.

9.5.4 System Security Network Support Payments

At the time of lodging its initial proposal Basslink was uncertain how the existing system security network support payments would be recovered.

The system security network support payments consist of contracts with major energy users for load interruption⁴⁴ and with HydroTas for generator tripping⁴⁵. These contracts are required so that Basslink can meet the Tasmanian Frequency Operating Standard. In the absence of these contracts Basslink is required to reduce its energy flow to 144 MW instead of 500 MW, in order to mitigate the impact of a single item of plant tripping on the operating frequency.⁴⁶ HydroTas currently procures the load

⁴⁰ APA, [Basslink Transmission Revenue Proposal](#), 15 September 2023, pp 212-14.

⁴¹ <https://www.energy.vic.gov.au/renewable-energy/offshore-wind-energy/regulatory-information>

⁴² <https://www.nopta.gov.au/offshoreregistrar.html>. *Offshore Electricity Infrastructure Act 2021 (Cth)* (OEI Act) s.115(2)(e),(f); *Offshore Electricity Infrastructure Regulations 2022 (Cth)*. [Offshore Electricity Infrastructure Framework Regulatory Process Map](#)

⁴³ [Energy Co-ordination and planning amendment \(Renewable energy zones\) Bill 2024](#), s.11P.

⁴⁴ Load tripping services permit southward flows (exporting from Victoria into Tasmania) to exceed 144 MW.

⁴⁵ Generation tripping services permit northward flows (exporting from Tasmania to Victoria) to exceed 144 MW.

⁴⁶ Basslink, Response to Information Request 07, question 15, received 30 September 2024, p 10.

tripping services from major industrial customers. Once regulated, Basslink will be responsible for undertaking the procurement of these services.

On 28 March 2024 the AEMC made a rule change⁴⁷ which provides for TNSPs' annual transmission prices to include the recovery of expected annual system security network support payments (new Rule). This replaces the current system where a network support payment allowance was approved by the AER in a revenue determination.⁴⁸

Basslink has indicated that it will be seeking to recover the cost of the contracts with major energy users for load interruption and with HydroTas for generator tripping through the annual price determination under this new Rule, which is effective from 1 December 2024.⁴⁹ This annual price determination will take the place of the current system of proposing a network support allowance in the revenue determination.⁵⁰

Basslink has indicated that under the new Rule,⁵¹ for each regulatory year in the first Basslink Revenue Reset period from 2026–2030, Basslink will apply clause 6A.23.3(h)(2) to adjust its transmission pricing by the expected system security network support payments for load tripping and generator tripping services. Basslink will have regard to the AER published guidelines per clause 6A.6.6A.

For each regulatory year 2026–27 to 2029–2030, Basslink will follow the process in clause 6A.7.2 to apply for positive or negative network support cost pass through adjustments to account for differences between expected and actual load tripping and generator tripping payments.

Basslink has indicated that the costs of the system security network support payments is not currently known. Basslink stated that it will conduct a competitive tender process for procurement of these services prior to the conversion of Basslink.⁵²

We released our System Security Network Support Payments Guideline on 29 November 2024.⁵³ We will be assessing Basslink's applications under the new Rule in accordance with this Guideline.

Note these costs are different to the costs of the other aspect of system security, which is the Basslink System Protection Scheme (SPS). The SPS is owned and operated by TasNetworks. It protects the Tasmanian network from excess current damage or an outage if Basslink trips or faults. TasNetworks is responsible for the SPS, which consists of two elements: the Network Control SPS and the Frequency Control SPS. The Frequency Control SPS relies on these system security network support contracts

⁴⁷ AEMC, 'Improving security frameworks for the energy transition' rule change.

⁴⁸ APA, Response to Information Request 07, question 15, received 30 September 2024, pp 8-12.

⁴⁹ APA, Response to Information Request 07, question 15, received 30 September 2024, pp 8-12.

⁵⁰ This network support pass through will be an annual adjustment (rather than a nominated event in a revenue determination under NER cl.6A.7.3(a1)(5).

⁵¹ APA, Response to Information Request 07, question 15, received 30 September 2024, p 16.

⁵² APA, Response to Information Request 07, question 15, received 30 September 2024, p 16.

⁵³ AER, [System Strength Security Network Support Payments Guideline](#), November 2024.

being in place so that there are loads that can be interrupted and generation tripped for frequency control. These costs are discussed in the opex chapter at section 3.4.3.1 Table 9–2 summarises our draft decision on the nominated pass through events to apply to Basslink.

Table 9–2 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. Basslink: <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. Basslink 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 Basslink in providing prescribed transmission services. <p>For the purposes of this insurance coverage event:</p> <ul style="list-style-type: none"> • 'changed circumstances' means movements in the relevant insurance market, including liability insurance, that are beyond the control of Basslink, where those movements mean that it is no longer possible for Basslink 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 Basslink was regulated; and • Basslink 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

Pass through event	Draft decision definition
	<p>related party of Basslink in relation to any aspect of Basslink's network or business; and</p> <ul style="list-style-type: none"> Basslink 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 Basslink in relation to any aspect of Basslink's network or business. <p>Note: for the avoidance of doubt, in assessing an insurance coverage event pass through application under rule 6A.7.3(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 TNSP would obtain, or would have sought to obtain, in respect of the event iii) any information provided by Basslink to the AER about Basslink's 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 credit risk event	<p>An insurer credit risk event occurs if an insurer of Basslink becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Basslink:</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. <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) Basslink'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 ii) in the event that a claim would have been covered by the insolvent insurer's policy, whether Basslink 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 2026–30 regulatory control period that changes the costs to Basslink in providing prescribed transmission 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

Pass through event	Draft decision definition
	<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> <ul style="list-style-type: none"> i) whether Basslink 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> <ul 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 Basslink in providing prescribed transmission 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 Basslink 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.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
Capex	Capital expenditure
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NSP	Network Service Provider
Opex	Operating expenditure
REZ	Renewable Energy Zone
RPP	Revenue and pricing principles
SPS	Special Protection Scheme
TNSP	Transmission Network Service Provider