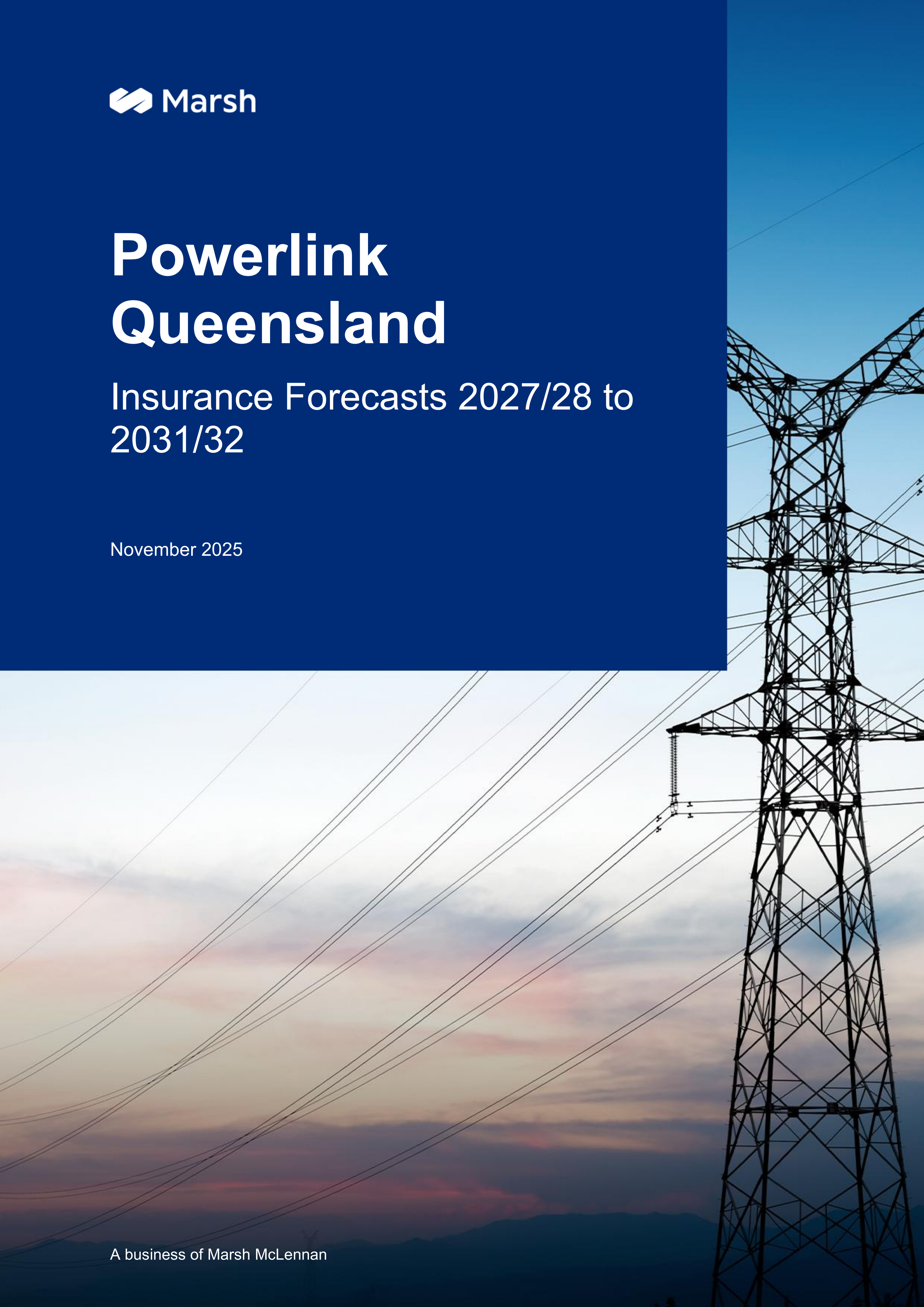
Powerlink 2027-32 Revenue Proposal

Appendix 5.06

Marsh - Insurance Forecasts 2027/28 to 2031/32



Powerlink Queensland

Insurance Forecasts 2027/28 to 2031/32

November 2025

A business of Marsh McLennan

Contents

Marsh is pleased to provide our report, outlining our Insurance Market update and our estimate of Powerlink Queensland’s premium projections & self-insurance requirements for the future years 2027/28 to 2031/32.

We confirm that we have made all the necessary inquiries that we believe are appropriate, and that no matters of significance that we regard as relevant have, to our knowledge, been withheld.

As premiums may vary based on insurance market events, claims and changing of underwriting conditions, we would welcome the opportunity to keep Powerlink updated on market trends particularly given current market volatility.

Please do not hesitate to contact us should you have any queries in relation to this report.

Kind Regards,

[redacted]

Managing Principal - Risk Management (Queensland)

[redacted]

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Section 1
Executive summary

Introduction

Marsh Pty Ltd (Marsh) has been engaged by Powerlink Queensland (Powerlink) to provide a forecast of the insurance premiums payable for the five-year regulatory period spanning 2027/28 to 2031/32. Our advice has been prepared in accordance with Powerlink's Request for Proposal dated 14th February 2025. We understand that our report may be provided to the Australian Energy Regulator (AER) as part of Powerlink's regulatory proposal for the regulatory period 2027/28 – 2031/32

The advice set out in this report has been prepared primarily by [redacted] (Managing Principal, Marsh Brisbane), who has been supported by additional subject matter experts employed by Marsh. Our experience and qualifications have previously been provided by Marsh to Powerlink. This report has been compiled and drafted based on material provided by Powerlink, market research & analysis, and relevant insurance & industry references.

Findings

Premium Forecasts

The table below provides a high-level cost indication in respect of Powerlink's estimated total annual insurance premium spend, spread over the next five year regulatory period. Premiums shown are for all policies which Powerlink are expected to purchase, and costs include all statutory charges (except GST) and Professional Fees.

All figures detailed within this report are for the regulated and non-regulated business areas of Powerlink combined and are presented in nominal dollars.

Powerlink's policies run from 30 November to 30 November. Figures for premiums in Tables 1, 3, 4, 5, 6 and 7 relate to the policy year.

Table 1. Summary of Total Premium Forecasts (Nominal)

Policy Year	Total Premium Inc. Professional Fees	Change
2027-28	$10,980,753	
2028-29	$11,728,567	6.81%
2029-30	$12,459,658	6.23%
2030-31	$13,434,736	7.83%
2031-32	$15,283,823	13.76%
Total	**$63,887,537**	

Marsh recognises that Powerlink is expected to undertake a number of new projects and consequently there will be significant growth in the value of insurable assets. This will have a significant effect on future insurance costs.

Our estimate of the annual premium cost starts at $10.98 million for the 2027/28 policy year and is expected to increase to $15.28 million by the 2031/32 policy year.

Self-Insurance Forecasts

The below table shows a summary of our estimated self-insurance forecasts for the next policy period (2027/28 to 2031/32).

Figures for self-insurance costs in Tables 2 and 8 relate to the financial year.

Table 2. Summary of Self-Insurance Forecasts (Nominal)

Financial Year	Self-insurance forecast	Change
2027-28	$ 2,545,907	
2028-29	$ 2,800,498	10%
2029-30	$ 3,080,547	10%
2030-31	$ 3,388,602	10%
2031-32	$ 3,727,462	10%
Total	**$ 15,543,017**	

Our forecast of Powerlink's self-insurance allowance for 2027/28 to 2031/32 is $15.54 million

As with the insurance premium forecasts, there will also be a similar increase in retained losses due to the expected growth of Powerlink's business and asset base. Our estimate of the annual self-insurance allowance starts at $2.55 million for the 2027/28 financial year and is expected to increase to $3.73 million in the 2031/32 financial year.

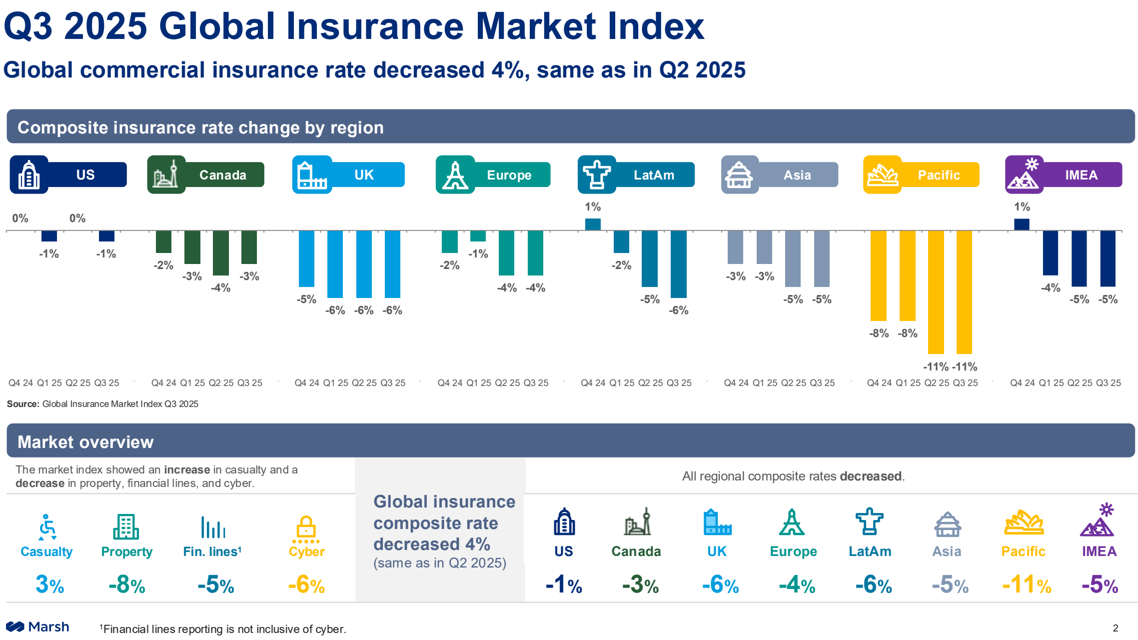
Section 2

Market update as at Q3 2025

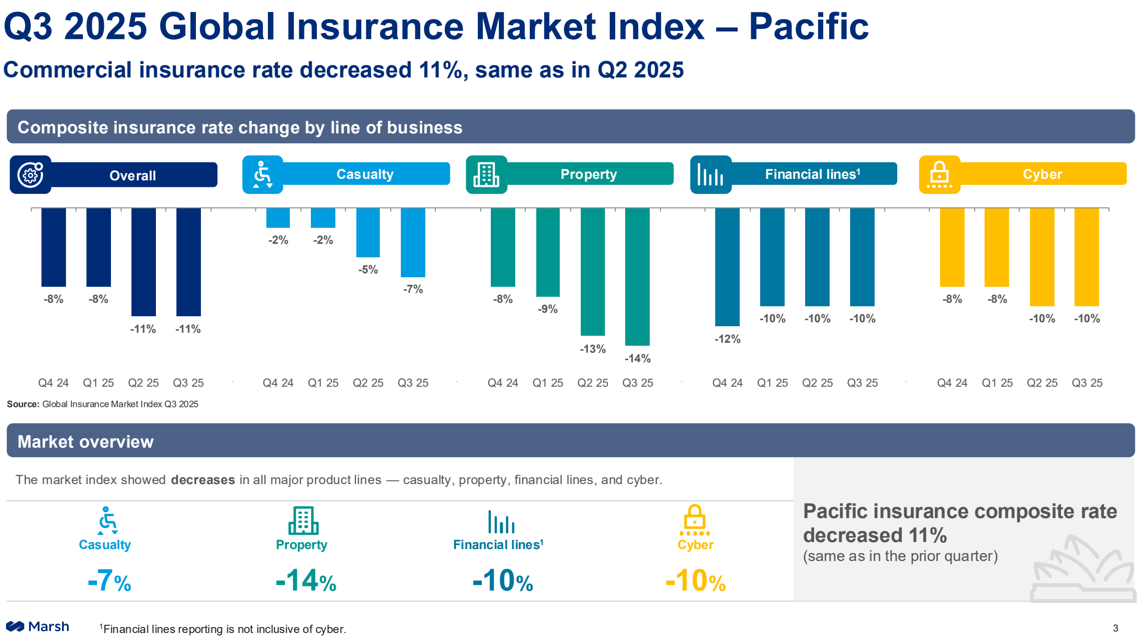
Each quarter, the Marsh *Global Insurance Market Index* (GIMI) provides our clients, partners and prospects with insights on the world's major insurance markets. As Marsh's proprietary measure of global commercial insurance rate trends, the GIMI captures a rolling view of marketplace shifts and serves as an ideal tool for clients to get a clear, concise picture of the most up to date position of the market.

High-level summary

In Q3 2025, average commercial insurance rates in the Pacific region declined 11% for the second consecutive quarter, **marking the largest reduction of any region.** Global composite insurance rates declined by 4%.



Pacific Region



Pacific region by insurance class

Property insurance rates declined by 14%.

- Insurers generally offered negotiable terms, including higher limits, reduced deductibles, and removal of mandatory endorsements.
- The largest rate reductions occurred in previously capacity-constrained, distressed sectors with historically high rate increases, including food and beverage, mining, and power, as well as catastrophe-exposed regions.
- International insurers provided capacity, further driving rate declines
- Long-term agreements (LTAs) were offered with varied rate adjustments for years two and three.

Casualty/liability insurance rates declined by 7%, the fourth consecutive quarter of decline.

- Rates for some insureds with losses or growth in their exposures remained flat or increased.
- Underwriting for per- and polyfluoroalkyl substances (PFAS) exposure varied; coverage availability was limited in certain sectors and regions.
- The challenging US casualty market influenced Australian placements with US-domiciled risks.

Financial and professional lines insurance rates decreased by 10%, matching the 10% last quarter.

- Retention levels and coverage were generally negotiable, especially when competing market terms were offered.
- Some insurers expressed concerns about continuing rate declines
- LTAs were commonly available.

Cyber insurance rates declined by 10%

- Insurers considered LTAs with single-digit reductions for 2026, though pre-agreed reductions were harder to secure.
- 17% of clients used premium savings to purchase increased cyber limits.
- Generative AI, backup security, and data protection practices were key concerns for insurers.
- Claims frequency declined, but ransomware claim severity increased.

Section 3
The Market Cycle

The following diagrams illustrate the insurance market cycle. The current position is that of a ‘Soft Market’, in which increased capital flows into markets and insurers chase market share. The competition driven by excess capacity naturally results in premium reductions.

The Insurance Cycle

A soft market is characterised by the below key factors:

- Moderate to high premium reductions across most classes
- Greater risk appetite from the Insurance market
- An increase in available capacity from existing and new insurers
- A willingness for underwriters to write Long Term Agreements
- Insurers agreeing to uniform / broader policy wordings.

Market Cycle Influences

The insurance market cycle is influenced by a variety of factors, including:

1. **Economic Conditions**: During economic downturns, consumers and businesses may reduce their insurance spending, affecting market dynamics.
2. **Claims Trends**: Patterns in claims influence insurers' risk assessments and pricing strategies.
3. **Regulatory Changes**: New laws and regulations can alter the risk landscape and affect market cycles.
4. **Natural Disasters**: Catastrophic events like Cyclones, Earthquakes, and Floods inevitably lead to significant losses for insurers, impacting premiums and coverage availability.
5. **Market Competition**: The level of competition among insurers can affect pricing and coverage options. When insurers are profitable, Capital generally becomes available to insurers, who then are under pressure to provide further returns.
6. **Investment Returns**: Insurers rely on investment income to offset underwriting losses. Fluctuations in investment returns can influence the market cycle.

Section 4
Premium projections

Background

Powerlink is a government-owned organisation that owns Queensland's high-voltage electricity transmission network. The network extends 1,700 km from the northern NSW border up to far-north Queensland. Powerlink's main activity is transportation of electricity on its high-voltage transmission network from generators to an electricity distribution network and major high voltage customers. The Australian Energy Regulator (AER) sets Maximum Allowable Revenue for Powerlink for each regulatory period.

Scope

The scope of our review is to provide estimates of the total premium payable by Powerlink across the five-year period 2027/28 to 2031/32, with separate estimates for each year. The estimated costs provided are the insurance base premiums payable plus an estimate of taxes and levies, excluding GST. Professional fees are shown separately.

Our estimated premiums include allowance for the following insurance classes:

- Industrial Special Risks (ISR)
- Combined Liability including Bushfire Liability
- Financial Professional lines:
  - Directors' and Officers'
  - Employment Practices
  - Professional Indemnity
  - Corporate Practices Protection (Inquiry Costs & Statutory Liability)
  - Cyber Insurance
- Ancillary classes:
  - Motor Vehicle
  - Marine Cargo
  - Business Travel.

The report does not take into consideration Powerlink's premiums in respect of Contract Works & Construction Liability (as part of existing limited Principal Controlled Insurance arrangements), Income Protection for Redundant Staff, and Workers Compensation.

Basis of Estimates

We have prepared our annual estimated premiums for Powerlink on the basis that Powerlink:

- Consider the projected growth in the asset values of Powerlink's insurable asset values over the regulatory period. The projected asset values were provided by Powerlink which show varied growth over the regulatory period 2027/28 to 2031/32.
- Assume a market cycle (see Section 3) in accordance with the forecasted modelling currently available, which details an expected soft climate up until the end of 2027, before stabilising and then eventually hardening towards the middle and the end of the regulatory period.
- Where appropriate, assume future claims occurring in line with the average quantum and frequency as detailed by the insurers' claims histories (over a 10-year period). For the Industrial Special Risks policy, this equates to a claim approximately every 3 years.
- Include an allowance for all reasonably expected statutory taxes and levies, excluding GST. Our allowance for these costs has been based on the level of these costs included in the historical premiums.
- Provide accurate data which allow Marsh to calculate central estimates (i.e. Mean values of the range of possible, credible outcomes)

Comments on the Powerlink Insurance Program

The existing program is fit for purpose and balances risk exposure with appropriate insurance and regulatory arrangements. The insurance requirements, including limits, sub-limits and deductibles, are informed by a range of processes comprising of:

- Annual development and approval of a Powerlink Insurance Renewal Strategy. This Strategy forms a critical component of the insurance program renewal process, supports good governance and provides a transparent and justifiable mechanism to review the insurance program structure and suitability.
- Internal and external generated risk assessments (that may include exposure analysis) and reviews.
- Maximum foreseeable loss (MFL) studies:
  - Powerlink periodically undertakes analysis of credible scenarios e.g. credible bushfire and loss of supply liability events, to verify that it is maintaining appropriate insurance cover.
- Underwriter engineering reports:
  - Powerlink engages specialist service providers and / or Industrial Special Risk (ISR) underwriters to complete an annual inspection of targeted Powerlink sites to assess risk exposures and for Powerlink to address risk recommendations (if any).

- Broker advice, expertise and market analysis:
  - Including insurance renewal analysis against market updates.
  - Policy benchmarking (e.g. limits, premium rates, coverage) against comparative industry peers. Of note, that in classes that can be authoritatively benchmarked e.g. for ISR, Powerlink is within 1st Quartile of rate per 100 Total Insured Values of peer companies.
  - Continuous review and monitoring of policy wordings.
- Powerlink's claims history and loss ratios:
  - This provides a mechanism to validate coverage and limits, and an opportunity to pursue improvements where coverage gaps or clarifications are required.
  - Also allows Powerlink to benchmark Loss Ratio's (premium v. claims).

As outlined, Powerlink (supported by Marsh) continually reviews its insurance requirements against the organisational and external environment. Policy limits, sub-limits, deductibles and uninsured risks are reviewed annually and may change based on factors including risk profile, market capacity, and pricing.

Industrial Special Risks

[redacted] The policy limit, sub-limits and deductible are assessed as appropriate for Powerlink's risk exposure and what is reasonable for an efficient and prudent Network Service Provider (NSP).

The premium charged for this policy is calculated on the rate charged by insurers, which is applied to the Total Insured Values (TIV) declared by Powerlink. Powerlink have provided us with the estimated TIV for the forthcoming regulatory period.

[redacted]

As previously noted in this report, Powerlink is to undertake a period of significant growth, with a flow on effect being that the insurable values declared to insurers will also increase substantially.

The growth of the asset base will however help provide relief to the insurance rate that the underwriters charge. This is because the uplift in declared values helps with the premium pool that underwriters need to maintain in order to pay claims. This influencing factor has been taken into consideration when forecasting the future rate movements.

For the purpose of this report, Marsh have assumed that there will not be any change to the policy deductible and as such we have kept the deductible constant through the forecasted period, however due to the sharp rise in declared values, Powerlink may want to reassess their Risk Transfer strategies in order to keep costs to the minimum.

Table 3. Summary of Industrial Special Risks Forecasts

Industrial Special Risks (Nominal)

[redacted]

Towers & Lines

This type of insurance cover is not readily available within the insurance market. This is because most insurers have treaty re-insurance agreements, which specifically exclude cover for Towers & Lines. As such, there is very limited appetite for this risk which has resulted in Powerlink effectively self-insuring a large part of this risk since 2021. Going forward, from November 2026, it is expected that Powerlink will completely discontinue cover for the reasons listed below.

- The historical lack of insurable events which would lead to an insurance claim
- The prohibitive cost of the policy
- The dearth of insurance market appetite for this class of risk, and the subsequent questionable sustainability of ongoing cover.

In view of this, the Towers and Lines risk would need to be considered as a nominated pass-through and/or as a self-insurance event. As such, Marsh have factored this into the corresponding Transmission Lines component of self-insurance calculations. It should be noted that Powerlink has also explored other risk transfer options including parametric insurance; none of which have proved viable or cost effective.

Combined General Liability

Powerlink purchases a broad General Liability program from the insurance market. The complex placement of the policy involves many insurers across several jurisdictions. In addition to Public and Products Liability cover, the policy also covers Bushfire Liability, Failure to Supply, Pollution Liability, and Liability arising out of Electromagnetic Radiation. There is also sub-limited cover for Professional Indemnity risks.

[redacted] This limit is reviewed on a regular basis with input from a Risk Consultancy firm who quantify Powerlink's Maximum Foreseeable Loss. It is expected that further increases to the policy limit will be made over the course of the next regulatory period (as shown in table 4).

The program is placed on a traditional layer and co-insured basis. The primary layer of [redacted] (which represents ~36% of the overall premium) is subject to a Long-Term Agreement (LTA) clause. This LTA, which lasts for three years, ensures that the premium remains stable on the provision that no claims are made. With the LTA locked in, the only volatility to pricing is on the excess layers.

[redacted] in respect of Bushfire Liability claims. For planning and forecast purposes, Marsh have assumed that this deductible structure will remain unchanged for the whole of the next regulatory period.

Bushfire Liability

Once again, there are increasing challenges in the market securing Bushfire Liability capacity. The recent Californian bushfire catastrophe (including the Palisades and Eaton fires) burned over 50,000 acres and caused significant damage. This has only exacerbated what is already a distressed market. Whilst the cost implications to policyholders may not be fully felt in 2025, there will most likely be further restrictions in capacity and inflated premiums from the market once the re-insurance treaties are renewed in January 2026.

Australian policyholders continually find themselves in competition with other NSPs globally for a shallow pool of capacity, with a number of insurers (operating out of London, Europe and North America) opting to deploy their capacity in other jurisdictions where pricing is more attractive.

Insurers continue to scrutinise and revise their pricing models, with a much greater focus on adequacy of 'pay-back' period. This results in continued upward pressure on premiums, and downward pressure on overall policy limits for clients in the sector.

The fact that Powerlink is a TNSP, situated in Queensland, and typically has assets in lower bushfire risk locations, significantly helps with insurer appetite. Powerlink successfully differentiates itself in the insurance market when compared with other NSPs, not only because of its geographical footprint, but also because of the regular independent bushfire analysis which they undertake.

In addition, the expenditure that Powerlink invests into its Bushfire Mitigation Working Group and supporting mitigation activities e.g. vegetation management practices, is notable.

Our premium projection for the General Liability program is detailed below.

Table 4. Summary of Combined General Liability Forecasts (Nominal)

[redacted]

Financial Lines

Powerlink purchase the following Financial Lines policies:

- Directors' & Officers' Liability
- Corporate Practices Protection (Employment Practices Liability, Inquiry Costs & Statutory Liability)
- Cyber Insurance.

These policies are subject to various limits and deductibles, however the overall exposure to Powerlink in terms of deductibles is minimal. The policies have been claims free, and Marsh confirms that the relevant policy limits and deductibles are fit for purpose and are in line with Powerlink's peers.

The Financial Lines market in the last 12 months has been forgiving, with premium savings available for well-run companies and those without claims. We expect the market to remain like this for the next few years before hardening towards the end of the decade. It should be noted however that there is a limited market for the Corporate Practices Protection policy, and consequently premium increases year on year are commonplace for this placement.

We have assumed that there will be no change to the current policy limits, and no material changes to the current deductibles. We have not assumed any losses will occur within the forthcoming regulatory period which is consistent with no claims against these policies to date.

Our premium projection for the Financial Lines program is detailed below.

[redacted]

Ancillary Lines

Powerlink purchase the following policies, which are classed as Ancillary lines:

- Motor Vehicle
- Business Travel
- Marine Cargo.

These policies are subject to various limits and deductibles, however the overall self-insured retention exposure to Powerlink is minimal because the policies have relatively low deductibles when compared to the possible exposure under the applicable policies. As with all other Powerlink policies, the relevant policy limits and deductibles are assessed as appropriate in accordance with Powerlink's risk exposure.

In respect of the Motor Fleet policy (which represents the greatest cost of the three ancillary policies), the cost per vehicle also includes a 3% uplift each year for the estimated cost of repairs.

Although Marsh have assumed that there will be no change to the current policy limits, and no material changes to the current deductibles, this is an area Powerlink should continually review.

Our premium projection is detailed below.

[redacted]

Professional Fees

Powerlink currently engage Marsh Pty Ltd for their Insurance broking services and needs. These services include the placement of the Insurance program, specialist advice, and any additional technical reports.

Due to the fact that a large portion of Powerlink's Insurance program is placed with London based insurers, the Professional Fees shown also includes remuneration required by the London based brokers, who have to be engaged to place business into the London market.

Our projection for the Professional Fees is detailed below.

[redacted]

Section 5

Premium projection assumptions

- The claims loss history data as supplied by Powerlink is accurate and representative of loss history.
- That underwriting information provided by Powerlink such as asset values, vehicle numbers and other data to satisfy disclosure requirements.
- The estimates include base premium, terrorism levy, stamp duty, BUT excludes GST.
- No new policies to be put in place plus no material change to current policy coverage including limits, deductibles, etc.
- No major claims have been considered with the exception of those noted for the Industrial Special Risks placement.
- No provision for significant change in risk profile or change in company structure.
- No provision for significant deterioration of claims experience, or significant claims affecting the market e.g. Natural catastrophe events or unforeseen events such as COVID 19.
- CPI has not been directly built into premium forecasts but is assumed to be part of year on year changes embedded within the Average Premium Rate and within the data supplied by Powerlink.
- Forecasts are estimates ONLY with a range of uncertainties both known and unknown. The Forecast should therefore be viewed as an average with most likely outcomes + or - 10%.
- Excludes Principal Controlled Insurance (Line Refit and Easement Maintenance), Income Protection and Workers Compensation.

Section 6
Forecast self-insurance requirements

Background

Marsh has conducted analysis of Powerlink's retained loss history, comments detailed are in connection with forecasted self-insurance provisions for certain classes of insurance.

Our observations are prefaced on our understanding and interpretation of the loss data supplied by Powerlink.

Comments on Self-Insurance Application (SIA)

The AER approved SIA allowance (for the Regulated Asset Base) entitles Powerlink to recover:

- below deductible losses for the relevant insurance policy
- above policy limit losses below 1 per cent of the Maximum Allowable Revenue (MAR) for Powerlink for that regulatory year
- any differential between what an insurance underwriter pays out and the cost to Powerlink e.g. difference between the vehicle market value (as assessed by the insurance underwriter) and the vehicle book value.

Powerlink has developed detailed processes for application of the self-insurance allowance including it must:

- be for an event within the terms of the relevant insurance policy or an uninsurable event;
- not be expenses usually categorised as scheduled or unscheduled maintenance;
- not be Business as Usual (BaU) related costs; and
- for third party claims, Powerlink must be legally liable (therefore excludes ex gratia payments as these are payments made in the absence of legal obligation).

Individual year on year comparisons of costs and allowances of self-insurance are assumed to net out over the medium to long term.

It is assessed by Marsh that Powerlink has no likely and significant uninsured risks though most policies contain exclusions which are becoming increasingly prevalent and a requirement from insurers e.g. Cyber, Communicable / infectious disease.

Additionally, the self-insurance allowance and commercial insurance arrangements complement each other with the relevant deductible amounts optimised to deliver the best value for money and manage risk exposure.

Industrial Special Risks

[redacted] The loss data reviewed by Marsh included both above and below deductible events.

Powerlink's retained losses arise from events such as theft and other loss or damage to Powerlink property. [redacted]

[redacted]

In total, based on the combined loss averages in the historical loss data reviewed, we have included a provision of [redacted]

Towers & Lines

As previously described in Section 4 of this report, it is expected that Powerlink will not insure for this class of risk in the next regulatory period. As such, all damage and loss to towers and lines (which are excluded under the ISR policy) will be wholly retained by Powerlink.

The data supplied by Powerlink reveals that a significant event will occur on average every 8 years. When the historical costs of this type of event are averaged out per financial year and then added to other self-retained losses arising from additional aggregated minor incidents to towers and lines, a provision of approximately [redacted] should be allowed for in year 1.

General Liability

Powerlink has an exceptional claims record, having experienced only a limited number of claims that are likely to breach the policy deductible (which is [redacted]

[redacted]

Powerlink has to date managed all public liability claims within the deductible, meaning that the public liability insurer has not assumed the conduct of any claims.

All Other Policy Classes

Although "All Other Policy Classes" captures a number of Ancillary and Financial Lines policies, in the most part, it is only the motor fleet policy that historically causes Powerlink to call upon the SIA.

Powerlink's declared vehicle numbers have increased dramatically since the last regulatory period, and as such Powerlink will now have forecasted below deductible costs of [redacted] for year 1.

Based on this growth Powerlink can expect to have an increased exposure to its SIA of between 5% and 10% per annum. This has been factored into the table shown below. A nominal amount has also been factored in for the remaining policy classes.

In line with the expected growth in vehicle numbers it is anticipated that there will be higher SIA due to the increase in likely claims.

Total Forecasted Self-Insurance Provisions

[redacted]

Section 7

Self-insurance projection assumptions / considerations

- The retained loss history data as supplied by Powerlink is accurate and representative of loss history.
- Our knowledge of the potential for volatility in certain classes of insurance, particularly ISR.
- Our experience in managing claims for all classes of insurance and the potential for claim cost provisions to experience significant deviations over the life of a claim.
- A reasoned estimate as to claim costs in the context of the knowledge that forecasting for self-insured costs is an inherently problematic exercise.
- For planning purposes, deductibles remain unchanged excluding for Liability.

Section 8

Nominated pass through events

Introduction

As part of the revenue proposal, Powerlink has the opportunity to nominate reasonable and appropriate nominated pass-through events. If one of these nominated pass-through events eventuated, the Transmission Network Service Provider (TNSP) has the opportunity to submit an application for cost pass through treatment via consideration by the AER.

Scope

The scope of this report, as set out in our proposal, is for Marsh to analyse and recommend definitions and considerations for suitable nominated pass-through events for:

- Non-insurable risk events e.g. very low probability, high impact; and
- Events where it is not possible to calculate a reliable self-insurance forecast.

Background

Clause 6A.7.3(a1) of the National Electricity Rules (NER) provide for the following pass-through events for a transmission determination:

(1) a regulatory change event;

(2) a service standard event;

(3) a tax change event;

(4) an insurance event; and

(5) any other event specified in a transmission determination as a pass through event for the determination.

The Rules also allow for a TNSP to propose events as part of a Revenue Proposal having regard to the nominated pass through event considerations set out in the NER. A Revenue Proposal may include a proposal as to the events that should be defined as pass through events under clause 6A.7.3(a1)(5) having regard to the nominated pass through event considerations.

What is pass through?

Cost pass through is a way of addressing unexpected events and is intended to ensure the efficient funding of risks when it is uneconomical for the NSP to obtain insurance cover or be paid a self-insurance allowance.

The forecast efficient expenditure of NSPs in Australia is regulated by the AER and recovered through their “allowed revenue”, set each year. This allowed revenue includes the cost of risk management mechanisms, including commercial insurance and self-insurance.

Currently there are two ways that a NSP may recover the costs incurred as the result of any significant events that were not forecast as part of their allowed revenues:

1. Cost pass through – where expenditure arises in a permitted category of event (prescribed or nominated), the network service provider may apply to the AER to recover this amount from electricity customers in the next year's prices. A cost pass through event nominated at the time of a TNSP's regulatory proposal and approved by the AER only covers that category of event for that regulatory control period.
2. Capital expenditure re-opener – TNSP's can currently propose a capital expenditure re-opener to the AER. This only covers capital expenditure (e.g. the replacement cost of assets Towers and Lines swept away by flooding); it does not enable the recovery of repair costs to any assets which are damaged but not destroyed.

Criteria

We applied the following criteria to identify the events to be nominated for the cost pass through mechanism:

- Quantification of such an event, by attaching likelihood and / or severity, cannot be ascribed by reasonable means and is subject to significant uncertainty.
- Insurance is not (commercially) available on an efficient and prudent basis.
- Such an event is beyond the control of Powerlink, or Powerlink has taken appropriate and reasonable means in order to prevent or reduce the probability of its occurrence.
- The cost of the event exceeds 1 per cent of the Maximum Allowable Revenue (MAR) for the TNSP for that regulatory year.

For the events nominated, we note there have been no past incidents of similar type or similar events of such magnitude for Powerlink. However, we do not believe that the occurrence of such an event would necessarily preclude it from being a nominated pass through event as long as it met the above criteria.

In circumstances where these criteria are satisfied, the adoption of the cost pass through mechanism will likely be the most effective approach in achieving an adequate balance between:

- Having the incentive mechanisms in place to ensure that prices for consumers are no more than necessary to provide an appropriate level of service; and
- Still providing Powerlink with a reasonable opportunity to recover efficient costs associated with events that are outside of their reasonable control.

Network businesses should be able to recover the costs associated with events that are outside of their reasonable control.

The pass-through option is an efficient way of dealing with extreme events, which occur infrequently and are extremely difficult to model. The alternative of receiving an annual allowance to be placed in a reserve is problematic as the reserve may need to be maintained for a significant period of time. There is also the possibility that an extreme event may occur well before the reserve has reached the expected size for the event.

It is also worth noting that including a pass through event does not remove regulatory oversight. In relation to each nominated pass through event, Powerlink will retain its incentive to operate efficiently and mitigate its costs.

Nominated Pass Through

For the reasons discussed above, the nominated pass through events promote efficient investment in electricity services, and are in the long-term interests of consumers of electricity,

Accordingly, Powerlink nominate the following additional pass through events:

- Insurance Coverage Event
- Insurer's Credit Risk Default Event
- Natural Disaster Event
- Terrorism Event.

The basis for nominating these events, and the proposed definitions, are set out in the main body of this report.

1 Nominated Event 1: Insurance Coverage Event

1.1 Definition

We nominate an Insurance Coverage Event as a pass through event for the regulatory period 2027/28 to 2031/32. Our proposed definition of this event is as follows.

Figure 1 1 – Proposed Definition for Insurance Coverage Event

AN INSURANCE COVERAGE EVENT OCCURS IF:
1. Powerlink: a. makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or b. would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and 2. Powerlink incurs costs: a. beyond a relevant policy limit for that policy or set of insurance policies; or b. that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and 3. The costs referred to in paragraph 2 above materially increase the costs to Powerlink in providing prescribed transmission services.

For the purposes of this insurance coverage event:
• 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of Powerlink, where those movements mean that it is no longer possible for Powerlink to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.
• 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:
  • 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 Powerlink was regulated; and
• Powerlink will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of Powerlink in relation to any aspect of Powerlink's network or business; and
• Powerlink will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of Powerlink in relation to any aspect of Powerlink's network or business.

Note for the avoidance of doubt, in assessing an insurance coverage event through application under Clause 6A.7.3 of the Rules, the AER will have regard to: • The relevant insurance policy or set of insurance policies for the event; • The level of insurance that an efficient and prudent Network Service Provider (NSP) would obtain, or would have sought to obtain, in respect of the event; and • Any information provided by Powerlink to the AER about Powerlink's actions and processes; and

AN INSURANCE COVERAGE EVENT OCCURS IF:
• Any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.

1.2 Rationale

Powerlink has a comprehensive insurance program in place, which is aligned to the Powerlink risk profile. For the purpose of this report, we have assumed key limits (subject to annual review) as follows -[redacted] G[redacted]00[redacted]0[redacted]

This pass through event is proposed on the basis that it is not always efficient for TNSPs to fully insure against high impact, low probability events. This is because commercial insurance for these events may be unavailable or may be available at a prohibitively high cost. It is also unlikely to be efficient to receive an additional annual self-insurance allowance to be placed in a reserve as the reserve may need to be maintained, theoretically, for a significant period of time, noting that an extreme event may occur well before the reserve has reached the expected size for the event.

The AER has previously determined that an insured event where costs are incurred beyond the insurance cap would largely be triggered by circumstances beyond the NSP’s control, could not be forecast and would likely incur costs of a high magnitude. The AER considered that a combination of self-insurance (for costs above the insurance cap but below a specified threshold) and pass throughs should compensate for such an event.

1.3 Risk Mitigation

It is important to consider the complementary nature of commercial insurance coverage, self-insurance and pass through events to ensure optimal blend of cover.

Powerlink as an efficient and prudent NSP, sets its insurance limits based on credible risk-based scenario analysis, worst or maximum foreseeable loss (MFL) studies e.g. credible bushfire and loss of supply liability events, asset replacement values, industry benchmarks and professional Broker advice.

2 Nominated Event 2: Insurer Credit Risk Event

2.1 Definition

We nominate Insurer Credit Risk as a pass-through event for the regulatory period 2027/28 to 2031/32. Our proposed definition of this event is as follows.

Figure 2 1 – Proposed definition for an Insurer Credit Risk Event

AN INSURER CREDIT RISK EVENT OCCURS IF
• An insurer of Powerlink becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Powerlink: o 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 o incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer. Note: In assessing an Insurer Credit Risk event pass through application, the AER will have regard to, amongst other things: • Powerlink's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and • in the event that a claim would have been covered by the insolvent insurer's policy, whether Powerlink had reasonable opportunity to insure the risk with a different insurer.

2.2 Rationale

As outlined in Section 1.2 above, Powerlink has significant insurance coverage in place and as such an insurer not being able to pay all, or part, of a large, or catastrophic, event could be financially significant for Powerlink.

Any major catastrophic event has the potential to impact insurers in terms of ongoing claims and could also be a key factor for insurers in maintaining solvency and acceptable financial ratings.

Although Powerlink has mitigated this risk to the best of its ability, the insolvency of one or more of the insurers on their programme is out of their control. Marsh therefore believes that a pass-through mechanism is currently the most appropriate regulatory approach for addressing the costs arising from a nominated insurer of Powerlink's becoming insolvent.

2.3 Risk Mitigation

Powerlink as an efficient and prudent NSP, sets minimum requirements for the grading of participating underwriters at A- with A.M. Best and / or BBB+ with Standard and Poor's. This standard is currently reflected in all major polices.

In addition, Marsh provides regular updates on Global insurer rankings and has previously issued a hyperlink to a real time 'insurer monitor' which captures insurer security ratings and movements. Powerlink as an efficient and prudent NSP ensures these requirements are met and manages the risk through appropriate vertical and horizontal apportionment across its policies both domestically and internationally. As outlined, this is supported by appropriate due diligence activities by Powerlink and Marsh.

3 Nominated Event 3: Natural Disaster Event

3.1 Definition

We nominate that a Natural Disaster Event be included as a pass-through event for the regulatory period 2027/28 to 2031/32. Our proposed definition of this event is as follows.

Figure 3 1 – Proposed definition for a Natural Disaster Event

A NATURAL DISASTER EVENT OCCURS IF:
Natural Disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2027-32 regulatory control period that changes the costs to Powerlink in providing prescribed transmission services, provided the fire, flood or other event was: • a consequence of an act or omission that was necessary for Powerlink to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or • not a consequence of any other act or omission of Powerlink. Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things: • whether Powerlink has insurance against the event; and • the level of insurance that an efficient and prudent NSP would obtain in respect of the event.

3.2 Rationale

Powerlink has significant property insurance coverage including current limits (subject to annual review) [redacted] for Towers and Lines.

The above definition of a Natural Disaster Event is consistent with the wording contained in prior pass-through nominations.

The increasing number of Natural Catastrophe events and focus on effects of climate change does present greater concern with natural catastrophe risks moving forward and in particular in Queensland as it relates to Flood and Cyclone.

Powerlink has been subjected to claims from Flood and Cyclone in the past, however the levels of insurance were sufficient, and the policies did respond under those particular circumstances.

Whilst insurance is in place, in its current structure for Towers & Lines, the extensive transmission network does present a material risk for damage caused by Cyclone and Floods.

Additionally, with the Towers & Lines insurance:

- there is a lack of general appetite with only a select group of insurers capable of underwriting this cover,
- competition is minimal, and
- there are limited alternative options outside current markets (unlike the ISR policy, replacement capacity is not readily available).

Therefore, given the specialised nature of Towers & Lines insurance and the relatively small number of insurers willing to place such a policy, the continuity, terms and structure of this policy is subject to ongoing review and analysis.

3.3 Risk Mitigation

Natural Disaster events, by definition, cannot be prevented or avoided. Powerlink employs a range of strategies across the entire asset lifecycle to minimise and mitigate the exposure of the transmission network to Natural Disasters. These include a broad range of technical preventative measures including minimum design standards to withstand seismic, flood and cyclonic events; and continuous asset monitoring and maintenance activities along with insurance cover.

4 Nominated Event 4: Terrorism Event

4.1 Definition

We nominate that a Terrorism Event be included as a pass-through event for the regulatory period 2027/28 to 2031/32. Our proposed definition of this event is as follows.

Figure 4 1 – Proposed definition for a Terrorism Event

A TERRORISM EVENT OCCURS IF:
Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which: • from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and • changes the costs to Powerlink in providing prescribed transmission services. Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things: • whether Powerlink has insurance against the event; • the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and • whether a declaration has been made by a relevant government authority that a terrorism event has occurred.

4.2 Rationale

Powerlink currently has significant property insurance coverage including current limits (subject to annual review) [redacted] (although, as detailed in this report, it is expected that the Towers and Lines policy will discontinue and the risk will become self-insured by the start of the the new regulatory period).

The above definition of a Terrorism Event is consistent with the wording contained in prior pass-through nominations.

The increasing decline in security is well documented across a range authoritative bodies. The 2025 Australian Security Intelligence Organisation (ASIO) annual threat assessment indicates that over the next five years, a complex, challenging and changing security environment will become more dynamic, across multiple threat vectors.

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

The low frequency and potentially very high costs of a terrorism event make it challenging for insuring such events, with many insurers excluding or limiting cover. We cannot obtain adequate insurance on reasonable commercial terms to cover the occurrence of this type of event. In addition, we are not able to calculate a reasonable self-insurance premium for this event.

4.3 Risk Mitigation

Terrorism events are unpredictable and cannot be prevented or avoided. We employ a range of strategies to minimise and mitigate the exposure of the transmission network to Terrorism, including actions we take to ensure the protective security (includes physical, personnel and electronic) of our transmission network. While these actions assist to withstand such events, an act of terrorism could significantly impact on the cost of maintaining or restoring reliable supply of our prescribed transmission services.

5 Reliance and Limitations

We have relied on the accuracy and completeness of the data and other information (qualitative, quantitative, written and verbal) provided to us by Powerlink for the purpose of this advice.

This report has been prepared for the sole use of Powerlink for the purpose stated in the report. It is not intended, nor necessarily suitable, for any other purpose. Marsh are available to answer any queries.

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