

Draft Decision

Powerlink electricity transmission determination 2027 to 2032

(1 July 2027 to 30 June 2032)

Attachment 4 – Pass through events

September 2026

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4 Pass through events

During the regulatory control period Powerlink can apply to pass through to its customers, in the form of higher or lower network charges, certain material changes in its costs caused by pre-defined exogenous events. These events are called cost pass through events and may be positive (increasing regulated revenue) or negative (decreasing revenue). Positive pass throughs allow Powerlink to recover the efficient costs incurred as a result of events that could not be forecast as part of its proposal that otherwise would have a significant financial effect on its ability to invest in and operate its network.¹ The National Electricity Rules (NER) prescribe the following pass through events for all transmission determinations:²

- a regulatory change event
- a service standard event
- a tax change event
- an insurance event.

4.1 Draft decision

Our draft decision is to:

- accept the pre-existing insurance coverage, insurer credit risk, and natural disaster events
- accept the new proposed terrorism event.

Our reasons are set out in section 4.5, with our definitions of the accepted pass through events in Table 4.2.

4.2 Powerlink's proposal

Powerlink proposed the nominated pass through events set out in Table 4.1.

Powerlink submitted that it takes a holistic approach to the identification and management of risk and manages its risk profile through a suite of preventative, detective and mitigating controls. It noted that it aims to achieve 'an optimal balance of cover in the most cost-effective way for customers and Powerlink' by considering the complementary nature of commercial insurance coverage, self-insurance and pass through events. Powerlink engaged the insurance broker, Marsh Pty Ltd (Marsh) to advise it on its insurance and risk management approach for the 2027–32 regulatory period, including risks that may need to be addressed through pass through events. Powerlink submitted that based on Marsh's advice, it proposed the three events previously approved by the AER in our 2022–27 decision.³ Powerlink also proposed a new terrorism event to assist it in managing the increasing risk of acts of terrorism, noting that the AER has previously approved this type of

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

² NER, cl. 6A.7.3(a1).

³ AER, *Final decision, Powerlink Queensland transmission determination 2022–27*, April 2022.

nominated pass through event for other transmission and distribution networks in the National Electricity Market.⁴

Table 4.1 Powerlink’s nominated pass through events

Proposed event	Powerlink’s proposed definition
Pre-existing pass through events	
Insurance coverage event ⁵	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: i. the limit not been exhausted; or ii. those costs not been unrecoverable due to changed circumstances. • A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which Powerlink was regulated; and • Powerlink will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a

⁴ Powerlink, *2027-32 Revenue Proposal*, January 2026, pp 129–130.

⁵ Powerlink updated the Initial Proposal definition to address a typographical error in response to an AER Information Request. Powerlink, *Response to AER information request IR#004*, 1 April 2026.

	related party of Powerlink in relation to any aspect of Powerlink's network or business; and - Powerlink will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of Powerlink in relation to any aspect of Powerlink's network or business. Note for the avoidance of doubt, in assessing an insurance coverage event through application under Clause 6A.7.3 of the Rules, the AER will have regard to: - The relevant insurance policy or set of insurance policies for the event; - The level of insurance that an efficient and prudent network service provider (NSP) would obtain, or would have sought to obtain, in respect of the event; and - Any information provided by Powerlink to the AER about Powerlink's actions and processes; and - Any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.
Insurer credit risk event	An Insurer Credit Risk event occurs if: - An insurer of Powerlink becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Powerlink: - is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or - incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer. Note: In assessing an Insurer Credit Risk event pass through application, the AER will have regard to, amongst other things: - Powerlink's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and - in the event that a claim would have been covered by the insolvent insurer's policy, whether Powerlink had reasonable opportunity to insure the risk with a different insurer.
Natural disaster event	Natural Disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2027-32 regulatory control period that changes the costs to Powerlink in providing prescribed transmission services, provided the fire, flood or other event was: - a consequence of an act or omission that was necessary for Powerlink to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or - not a consequence of any other act or omission of Powerlink.

	Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things: whether Powerlink has insurance against the event; and the level of insurance that an efficient and prudent NSP would obtain in respect of the event.
New proposed pass through event	
Terrorism	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.

Source: Powerlink, *2027-32 Revenue Proposal*, January 2026, pp 129–134.

4.3 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.⁶

Our assessment approach is guided by the National Electricity Objective (NEO)⁷ and the Revenue and Pricing Principles (RPPs).⁸ 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.⁹ The NEO and the RPPs also reflect the importance of incentives to promote economic efficiency and balance the risks of under and over investment.

In the context of pass through events, we have particular regard to the impact on price, quality, reliability and security of supply that may arise as a result of any change in the:

⁶ NER, cll. 6A.6.9 and 6A.7.3.

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

⁸ The revenue and pricing principles are set out in s. 7A of the NEL.

⁹ NEL, s. 7A(2).

- efficient operation of the network by the service provider
- ability of a service provider to invest in its network
- incentive for a service provider to invest in its network.

This is a similar approach to that taken by the Australian Energy Market Commission (AEMC) when considering pass through event rule changes.¹⁰

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:¹¹

- a) whether the event proposed is an event covered by a category of pass through event specified in clause 6A.7.3(a1)(1) to (4);
- 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.¹²

...that a pass through event should only be accepted when it is the least inefficient option and event avoidance, mitigation, commercial insurance and self-insurance are found to be inappropriate. That is, it is included after

¹⁰ NEL, s. 7; AEMC, *Cost pass through arrangements for Network Service providers, Rule Determination*, 2 August 2012, p 6.

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

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

ascertaining the most efficient allocation of risks between a NSP and end consumers.¹³

This protects the incentive regime under the NER by limiting erosion of a service provider's incentives to use market-based mechanisms to mitigate the cost impacts that would arise. This also promotes the efficient investment in, and efficient operation and use of, network services for the long-term interests of consumers with respect to price.¹⁴

As a matter of good regulatory practice, we also take into account the desirability of consistency in our approach to assessing nominated pass through events across our electricity determinations and gas access arrangements.¹⁵

4.4 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.¹⁶ This requires us to balance the incentives in the various parts of our decision.

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

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

An efficient business will manage its risk by employing the most cost-effective combination of these strategies. In order to maintain appropriate incentives under our determinations, we only accept nominated pass through events where we are satisfied that event avoidance, mitigation, commercial insurance and self-insurance under approved forecasts of prudent and efficient opex and capex are either unavailable or inappropriate.¹⁷

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

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

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

¹⁶ NEL, s. 16(1)(c).

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

In general, in respect of unforeseen costs that are relatively minor, a service provider should manage them by using up its existing expenditure allowance, or reprioritising or substituting its projects, to avoid seeking cost recovery through the pass through mechanisms.¹⁸ This is reflected in the materiality threshold that applies to cost pass through applications.¹⁹

Cost pass through amounts approved in a regulatory control period are added to (or in the case of a negative pass through deducted from) forecast opex and capex for the purpose of calculating efficiency carryover amounts under the efficiency benefit sharing scheme and capital expenditure sharing scheme.²⁰

Any capex that has already been recovered in a regulatory control period by way of a cost pass through cannot be recovered again in the roll-forward of the regulatory asset base for the next regulatory control period.²¹

4.5 Reasons for draft decision

We consider that the Powerlink pre-existing insurance coverage, insurer credit risk, natural disaster events, and the new proposed terrorism event meet the nominated pass through event considerations set out in the NER, including that:

- 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.
- While Powerlink 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. Sharing the risk between Powerlink and its customers is appropriate and more likely to be in the long-term interests of consumers with respect to price.
- Submissions on Powerlink's proposal supported the new proposed terrorism event. The AER's Consumer Challenge Panel sub panel 34 (CCP34) supported the proposed pass through events, noting the terrorism event appeared consistent with contemporary critical infrastructure risk management practices, and reflects the low-frequency, high-consequence nature of terrorism-related events.²² Powerlink's Revenue Proposal Reference Group also supported the terrorism event, noting that the AER has approved the same terrorism event as a pass through category in recent determinations.²³

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

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

²⁰ AER, *Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*, November 2013, p 7; AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, April 2023, p 3.

²¹ NER, cl. S6.2.1(e)(1)(ii).

²² CCP34, *Submission – Powerlink 2027–32 electricity transmission revenue proposal*, May 2026, p. 35.

²³ Revenue Proposal Reference Group, *Submission – Powerlink 2027–32 electricity transmission revenue proposal*, May 2026, p 42.

- We accept the definitions proposed by Powerlink for insurance coverage, insurer credit risk, natural disaster, and terrorism pass through events, as these are consistent with the NER criteria. The proposed insurance coverage, insurer credit risk, and natural disaster events are the same as those included in Powerlink’s 2022–27 determination,²⁴ and are consistent with our recent determinations for other network service providers.²⁵ The new terrorism event is also consistent with our recent determinations for other transmission and distribution network service providers.²⁶
- Table 4.2 sets out the accepted nominated pass through events for the draft decision.

Table 4.2 AER pass through event definitions for the draft decision.

Proposed event	AER draft decision definition
Pre-existing pass through events	
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.

²⁴ AER, *Final decision, Powerlink Queensland transmission determination 2022–27*, April 2022.

²⁵ AER, *Overview, Final decision, Jemena distribution determination 2026–31*, April 2026; AER, *Final Decision Attachment 15, Pass through events, Ausgrid, 2024–29 Distribution revenue proposal*, April 2024; AER, *Draft Decision, AusNet Services transmission determination 2027–32, Attachment 4, Pass through events*, June 2026. We have made minor changes to the definitions for a typographical correction – this does not impact the definition of the event and is marked up below.

²⁶ AER, *Overview, Final decision, Jemena distribution determination 2026–31*, April 2026; AER, *Final Decision Attachment 15, Pass through events, Ausgrid, 2024–29 Distribution revenue proposal* - April 2024; AER, *Draft Decision, AusNet Services transmission determination 2027–32, Attachment 4, Pass through events* - June 2026.

	• 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: i. the limit not been exhausted; or ii. those costs not been unrecoverable due to changed circumstances. • A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which Powerlink was regulated; and • Powerlink will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of Powerlink in relation to any aspect of Powerlink's network or business; and • Powerlink will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of Powerlink in relation to any aspect of Powerlink's network or business. Note for the avoidance of doubt, in assessing an insurance coverage event through application under Clause 6A.7.3 of the Rules, the AER will have regard to: • The relevant insurance policy or set of insurance policies for the event; • The level of insurance that an efficient and prudent network service provider (NSP) would obtain, or would have sought to obtain, in respect of the event; and • Any information provided by Powerlink to the AER about Powerlink's actions and processes; and • Any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.
Insurer credit risk event	An Insurer Credit Risk event occurs if: • An insurer of Powerlink becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Powerlink: - is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or - incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer. Note: In assessing an Insurer Credit Risk event pass through application, the AER will have regard to, amongst other things:

	• Powerlink's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and • in the event that a claim would have been covered by the insolvent insurer's policy, whether Powerlink had reasonable opportunity to insure the risk with a different insurer.
Natural disaster event	Natural Disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2027-32 regulatory control period that changes the costs to Powerlink in providing prescribed transmission services, provided the fire, flood or other event was: • a consequence of an act or omission that was necessary for Powerlink to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or • not a consequence of any other act or omission of Powerlink. Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things: • whether Powerlink has insurance against the event; and • the level of insurance that an efficient and prudent NSP would obtain in respect of the event.
New proposed pass through event	
Terrorism	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.

Glossary

Term	Definition
AEMC	AEMC
AER	Australian Energy Regulator
capex	capital expenditure
CCP34	Consumer Challenge Panel sub panel 34
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
NSP	network service provider
opex	operating expenditure
RAB	regulatory asset base
RPP	revenue and pricing principles