



Powerlink transmission determination 2017–22

April 2017

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

AER Reference: 57461

Table of contents

Table of contents	1
Shortened forms	2
Summary.....	3
1 Revenue.....	4
1.1 Method for calculating estimated total revenue cap.....	5
1.2 Annual building block revenue requirement	5
1.3 Method for calculating maximum allowed revenue	6
1.4 Regulatory asset base.....	8
1.5 Method for indexation of the regulatory asset base	8
1.6 Performance incentive scheme parameters	9
1.7 Efficiency benefit sharing scheme parameters.....	10
1.8 Application of the capital expenditure sharing scheme.....	11
1.9 Commencement and length of the regulatory control period.....	11
1.10 Depreciation for establishing the regulatory asset base as at the commencement of the next regulatory control period	11
2 Negotiating framework.....	12
3 Negotiated transmission service criteria (NTSC)	13
4 Pricing methodology	16
5 Pass through events	17

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
AR	Annual revenue
CESS	Capital expenditure sharing scheme
EBSS	Efficiency benefit sharing scheme
MAR	maximum allowed revenue
NER	National Electricity Rules
NSP	network service provider
NTSC	Negotiated transmission service criteria
opex	operating expenditure
PTRM	post tax revenue model
RAB	regulatory asset base
STPIS	Service target performance incentive scheme
TNSP	Transmission network service provider

Summary

The Australian Energy Regulator (AER) makes a transmission determination for each transmission network service provider (TNSP) in accordance with chapter 6A of the National Electricity Rules (NER).¹

This document is our transmission determination for Powerlink for the regulatory control period 1 July 2017 to 30 June 2022. Our reasons are included in the AER's final decision on Powerlink's transmission determination (April 2017) which is to be read in conjunction with this document.

Our transmission determination for Powerlink consists of:²

- A revenue determination in respect of the provision by Powerlink of prescribed transmission services (section 1)
- A determination relating to Powerlink's negotiating framework (section 2)
- A determination that specifies the negotiated transmission service criteria (NTSC) that apply to Powerlink (section 3)
- A determination that specifies the pricing methodology that applies to Powerlink (section 4)
- A determination that specifies pass through events that will apply to this determination in addition to those specified in the NER (section 5).

¹ NER, cl. 6A.2.1.

² NER, cl. 6A.2.2; 6A.7.3(a1).

1 Revenue

We calculate the amount of revenue that Powerlink requires each year of the regulatory control period in accordance with a building block approach.³ This is referred to as the *annual building block revenue requirement*. The annual building block revenue is then used to calculate the expected *maximum allowed revenue* (MAR) for each year of the 2017–22 regulatory control period. The annual MAR that Powerlink may earn from providing prescribed transmission services is subject to adjustments to account for factors such as inflation, approved pass through costs and annual performance rewards or penalties.

Our revenue determination specifies the following matters:⁴

- The amount of the estimated total revenue cap for the regulatory control period and the method of calculating that amount.
- The annual building block revenue requirement for each regulatory year of the regulatory control period.
- The amount of the MAR for each regulatory year of the regulatory control period or the method of calculating that amount.
- The regulatory asset base (RAB) as at the commencement of the regulatory control period.
- The methodology that will be used for the indexation of the RAB.
- The values that are to be attributed to the performance incentive scheme parameters for the purposes of the application to Powerlink of the service target performance incentive scheme (STPIS) that applies in respect of the regulatory control period.
- The values that are to be attributed to the efficiency benefit sharing scheme parameters for the purposes of the application to Powerlink of the efficiency benefit sharing scheme (EBSS) that applies in respect of the regulatory control period.
- How the capital expenditure sharing scheme is to apply to Powerlink.
- The commencement and length of the regulatory control period covered by this determination.
- That depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period is to be based on forecast capital expenditure.

³ NER, cl. 6A.5.4.

⁴ NER, cl. 6A.4.2

1.1 Method for calculating estimated total revenue cap

We determine an estimated total MAR of \$3940.2 million (\$ nominal) for Powerlink for the 2017–22 regulatory control period as shown in Table 1-1. The estimated total MAR is also known as the total revenue cap. It is the sum of the expected MAR for each regulatory year.⁵

Table 1-1 AER's final determination on Powerlink's annual expected maximum allowed revenue (\$ million, nominal)

	2017–18	2018–19	2019–20	2020–21	2021–22	Total
Annual expected MAR (smoothed)	752.7	770.0	787.6	805.7	824.2	3940.2
X factor (%) ^a	n/a ^b	0.15%	0.15%	0.15%	0.15%	n/a

Source: AER analysis.

- (a) The X factor will be revised to reflect the annual return on debt update. Under the CPI-X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.
- (b) Powerlink is not required to apply an X factor for 2017–18 because we set the 2017–18 MAR in this transmission determination. The MAR for 2017–18 is around 27.9 per cent lower than the approved MAR for 2016–17 in real terms, or 26.1 per cent lower in nominal terms.

We determine the annual expected MAR by using the X factors to smooth the annual building block revenue requirement as set out below.

1.2 Annual building block revenue requirement

We determine the annual building block revenue requirement for Powerlink as shown in Table 1-2.

⁵ NER, cl. 6A.5.3.

Table 1-2 AER's final determination on Powerlink's annual building block revenue requirement (\$ million, nominal)

	2017–18	2018–19	2019–20	2020–21	2021–22	Total
Return on capital	425.5	430.4	434.2	437.3	440.5	2168.0
Regulatory depreciation	88.9	113.3	131.0	143.1	150.2	626.6
Operating expenditure	201.7	205.8	209.8	214.2	219.3	1050.7
Efficiency benefit sharing scheme (carryover amounts)	-0.8	-7.1	-3.2	3.0	0.0	-8.1
Net tax allowance	17.1	19.4	22.7	24.3	24.5	108.0
Annual building block revenue requirement (unsmoothed)	732.4	761.8	794.6	821.9	834.5	3945.2

Source: AER analysis.

1.3 Method for calculating maximum allowed revenue

We use an expected inflation rate in our post-tax revenue model (PTRM) to calculate the expected MAR (as shown in Table 1-3) in nominal dollar terms. Therefore, the calculation of the actual annual MAR will require an adjustment for actual inflation. The MAR is also subject to adjustments for updating the return on debt annually, a revenue increment or decrement determined in accordance with the STPIS, and any approved pass through amounts. This section sets out the method of this annual adjustment process.

We determine that the method for calculating Powerlink's MAR for each year of the 2017–22 period will be the sum of its allowed revenue (AR) for that year and adjustments arising from the STPIS and any approved pass through amounts.

We determine the 2017–18 AR of \$753.6 million for Powerlink. Powerlink then applies an annual adjustment to determine its AR for each subsequent year of the 2017–22 period, based on the previous year's AR and using the CPI-X methodology. That is, the subsequent year's AR is determined by adjusting the previous year's AR for actual inflation and the X factor determined after the annual return on debt update:

$$AR_t = AR_{t-1} \times (1 + \Delta CPI) \times (1 - X_t)$$

where:

AR = the allowed revenue

t = time period/financial year (for t = 2, (2018–19), 3 (2019–20), 4 (2020–21), 5 (2021–22))

- ΔCPI = the annual percentage change in the Australian Bureau of Statistics' (ABS) consumer price index (CPI) all groups, weighted average of eight capital cities from December in year $t - 2$ to December in year $t - 1$ ⁶
- X = the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix calculated for the relevant year.

The MAR is determined annually in accordance with the NER by adding to (or deducting from) the AR:

- the service target performance incentive scheme revenue increment (or revenue decrement)⁷
- any approved pass through amounts.⁸

The annual MAR is established according to the following formula:

$$\begin{aligned} \text{MAR}_t &= (\text{allowed revenue}) + (\text{performance incentive}) + (\text{pass through}) \\ &= \text{AR}_t + \left(\frac{(\text{AR}_{t-1} + \text{AR}_{t-2})}{2} \times S_{ct} \right) + P_t \end{aligned}$$

where:

- MAR = the maximum allowed revenue
- AR = the allowed revenue
- S = the revenue increment or decrement determined in accordance with the STPIS
- P = the pass through amount (positive or negative) that the AER has determined in accordance with clauses 6A.7.2 and 6A.7.3 of the NER

⁶ In the transmission determination for Powerlink's 2012–17 regulatory control period, the CPI required for the annual MAR adjustment process reflects the March quarter CPI, which is typically published by the ABS in late April each year. For this transmission determination we require Powerlink to use the December quarter of the previous calendar year CPI for the annual MAR adjustment for its 2017–22 regulatory control period. December quarter CPI is typically released by the ABS towards the end of January of the following year. As the same set of CPI will be used for the RAB roll forward at the next reset for Powerlink in 2022, this change will allow us to update the actual CPI for RAB roll forward purposes well before the publication date of the AER's final decision at the next reset. We note that there will be an overlapping issue of the March quarter CPI when the transition to the December quarter CPI occurs (this will be in the year 2017–18 for Powerlink). This is because the CPI for March quarter 2017 will be reflected in both 2016–17 and 2017–18. However, we consider this is only a transitional issue and does not have a material impact on the revenue to be recovered by Powerlink.

⁷ NER, clauses 6A.7.4.

⁸ NER, clauses 6A.7.2 and 6A.7.3.

t = time period/financial year (for $t = 2$ (2018–19), 3 (2019–20), 4 (2020–21), 5 (2021–22))

ct = time period/calendar year (for $t = 2$ (2017), 3 (2018), 4 (2019), 5 (2020)).

Under the NER, a TNSP may also adjust the MAR for under or over-recovery amounts.⁹ That is, the revenue amounts recovered higher or lower than the approved MAR for each year would be included in the subsequent year's MAR. In the case of an under-recovery, the amount would be added to the future year's MAR. In the case of an over-recovery, the amount would be subtracted from the future year's MAR.

Table 1-3 sets out the timing of the annual calculation of the AR and performance incentive.

Table 1-3 Timing of the calculation of allowed revenues and the performance incentive for Powerlink

t	Allowed revenue (financial year)	ct	Performance incentive (calendar year)
2	1 July 2018–30 June 2019	2	1 January 2017–31 December 2017
3	1 July 2019–30 June 2020	3	1 January 2018–31 December 2018
4	1 July 2020–30 June 2021	4	1 January 2019–31 December 2019
5	1 July 2021–30 June 2022	5	1 January 2020–31 December 2020

Note: The performance incentive for 1 January 2016–31 December 2016 is to be applied to the AR determined for 2017–18 (AR_1).

1.4 Regulatory asset base

We determine an opening RAB value of \$7069.4 million as at the commencement of the 2017–22 regulatory control period for Powerlink.

1.5 Method for indexation of the regulatory asset base

The method for indexing Powerlink's RAB for each year of the 2017–22 regulatory control period will be the same as that used to escalate its AR for that relevant year—that is, to apply the annual percentage change in the published ABS CPI all groups, weighted average of eight capital cities.¹⁰ For Powerlink, this will be the December quarter CPI. This method will be used as part of the roll forward of Powerlink's opening RAB for the purposes of the AER's transmission revenue determination for the regulatory control period commencing on 1 July 2022.

⁹ NER, clauses 6A.23.3(c)(2)(iii) and 6A.24.4(c).

¹⁰ ABS, *Catalogue number 6401.0, Consumer price index*, Australia.

1.6 Performance incentive scheme parameters

All components of version 5 of the STPIS will apply to Powerlink for the 2017–22 regulatory control period. The parameters applicable to Powerlink are set out in the tables below.

Table 1-4 Final decision — Service Component Caps, floors and targets for 2017–2022

Parameter		Floor	Target	Cap
Average circuit outage rate				
Lines event rate – fault	Pearson5	27.17	20.88	15.86
Transformer event rate – fault	LogNormal	20.84	18.91	17.09
Reactive plant event rate – fault	LogLogistic	43.42	29.85	19.49
Lines event rate – forced	Weibull	24.09	20.39	15.90
Transformer event rate – forced	Weibull	23.49	19.17	13.96
Reactive plant event rate – forced	LogLogistic	34.25	24.23	15.95
Loss of supply events				
Number of events > 0.05 system minutes per annum	Poisson	7	3	1
Number of events > 0.4 system minutes per annum	Poisson	3	1	0
Average outage duration	Exponential	282.00	94.14	4.83

Source: AER analysis

Table 1-5 Final decision —MIC parameter values for 2017–2022

Parameter values - MIC	2009–2015
Performance target	333
Unplanned outage event limit	57
Dollar per dispatch interval	\$22,062

Source: AER analysis

Table 1-6 Final decision — Network capability priority projects for 2017–2022 (\$ real 2016-17)

Project	Target	Completion date	Capex	Opex	Total
Increase design temperature of Bouldercombe to Raglan and Larcom Creek to Calliope River 275kV transmission lines	Increasing the ground clearance of the 14 ¹¹ spans from 82°C to 90°C this increases the Summer Emergency cyclic rating of the feeders to 593MVA.	30 June 2019	0	\$606,000	\$606,000

Source: AER analysis

1.7 Efficiency benefit sharing scheme parameters

The values for the efficiency benefit sharing scheme (EBSS) parameters that are to apply to Powerlink in the 2017–22 period, subject to adjustments required by the EBSS, are set out in Table 1-7.

Table 1-7 AER's decision on Powerlink's forecast opex for the EBSS (\$ million, 2016–17)

	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Forecast opex	196.9	196.0	195.1	194.4	194.3	976.7
less debt raising costs	-3.6	-3.6	-3.5	-3.5	-3.4	-17.6
less network support costs	–	–	–	–	–	–
Forecast opex for EBSS purposes	193.3	192.5	191.6	190.9	190.8	959.10

Source: AER analysis.

In calculating EBSS carryover amounts, the AER will exclude the following costs from the EBSS:

- debt raising costs
- network support costs.

In addition to these excluded cost categories we will also:

¹¹ These spans are listed in Powerlink's revised Revenue proposal, appendix 3.02 confidential, 12 October 2015, table 1, p. 5.

- adjust forecast opex to add (subtract) any approved revenue increments (decrements) made after the 2017–22 regulatory determination. This may include approved pass through amounts.
- adjust actual opex to add capitalised opex that has been excluded from the RAB
- exclude categories of opex not forecast using a single year revealed cost approach for the regulatory control period beginning in 2022 where doing so better achieves the requirements of clause 6A.6.5 of the NER.

When calculating actual opex under the EBSS we will adjust reported actual opex for the 2017–22 period to reverse any movements in provisions.

1.8 Application of the capital expenditure sharing scheme

We will apply version 1 of the CESS as set out in the capital expenditure incentives guideline to Powerlink’s 2017–22 regulatory control period.¹² The guideline provides for the exclusion from the CESS of capex the service provider incurs in delivering a priority project approved under the network capability component of the STPIS.¹³

1.9 Commencement and length of the regulatory control period

The regulatory control period will be five years, commencing on 1 July 2017 and ending on 30 June 2022.

1.10 Depreciation for establishing the regulatory asset base as at the commencement of the next regulatory control period

The forecast depreciation approach (that is, based on forecast capital expenditure) will apply to the 2017–22 regulatory control period and is to be used to establish Powerlink’s RAB at the commencement of the regulatory control period from 1 July 2022.

¹² AER, *Capex incentive guideline*, November 2013, pp. 5–9; NER, cl. 6A.6.5A(e).

¹³ AER, *Capex incentive guideline*, November 2013, p. 6.

2 Negotiating framework

Powerlink must comply with its negotiating framework and its NTSC (see section 3 of this determination) when it is negotiating the terms and conditions of access for negotiated transmission services to be provided to a person.¹⁴

Powerlink's negotiating framework sets out the procedure to be followed during negotiations between Powerlink and any person who wishes to receive a negotiated transmission service from Powerlink, as to the terms and conditions of access for provision of the service.¹⁵

The negotiating framework in attachment A to this determination must be adopted by Powerlink for the regulatory control period covered by this determination.

¹⁴ NER, cl. 6A.9.2(a); 6A.9.3. Powerlink must also comply with chapters 4, 5 and 6A of the NER.

¹⁵ NER, cl. 6A.9.5(a).

3 Negotiated transmission service criteria (NTSC)

Powerlink must comply with its negotiating framework (see section 2 of this determination) and its NTSC when it is negotiating the terms and conditions of access for negotiated transmission services to be provided to a person.¹⁶

Powerlink's NTSC sets out the criteria that are to be applied:¹⁷

- by Powerlink in negotiating:
 - the terms and conditions of access for negotiated transmission services, including the prices that are to be charged for the provision of those services by Powerlink for the regulatory control period
 - any access charges which are negotiated by Powerlink during the regulatory control period
- by a commercial arbitrator in resolving any dispute, between Powerlink and a person who wishes to receive a negotiated transmission service, in relation to:
 - the terms and conditions of access for the negotiated transmission service, including the price that is to be charged for the provision of that service by Powerlink
 - any access charges that are to be paid to or by Powerlink.

The following NTSC will apply to Powerlink for the regulatory control period covered by this determination.

National Electricity Objective

1. The terms and conditions of access for a negotiated transmission service, including the price that is to be charged for the provision of that service and any access charges, should promote the achievement of the National Electricity Objective.

Criteria for terms and conditions of access

Terms and conditions of access

2. The terms and conditions of access for a negotiated transmission service must be fair, reasonable and consistent with the safe and reliable operation of the power system in accordance with the NER.

¹⁶ NER, cl.6A.9.2(a); 6A.9.3. Powerlink must also comply with chapters 4, 5 and 6A of the NER.

¹⁷ NER, cl. 6A.9.4.

3. The terms and conditions of access for negotiated transmission services, particularly any exclusions and limitations of liability and indemnities, must not be unreasonably onerous. Relevant considerations include the allocation of risk between the TNSP and the other party, the price for the negotiated transmission service and the cost to the TNSP of providing the negotiated service.
4. The terms and conditions of access for a negotiated transmission service must take into account the need for the service to be provided in a manner that does not adversely affect the safe and reliable operation of the power system in accordance with the NER.

Price of services

5. The price of a negotiated transmission service must reflect the cost that the TNSP has incurred or incurs in providing that service, and must be determined in accordance with the principles and policies set out in the Cost Allocation Methodology.
6. Subject to criteria 7 and 8, the price for a negotiated transmission service must be at least equal to the avoided cost of providing that service but no more than the cost of providing it on a stand-alone basis.
7. If the negotiated transmission service is a shared transmission service that:
 - (a) exceeds any network performance requirements which it is required to meet under any relevant electricity legislation; or
 - (b) exceeds the network performance requirements set out in schedule 5.1a and 5.1 of the NER
8. then the difference between the price for that service and the price for the shared transmission service which meets network performance requirements must reflect the TNSP's incremental cost of providing that service (as appropriate).
9. For shared transmission services, the difference in price between a negotiated transmission service that does not meet or exceed network performance requirements and a service that meets those requirements should reflect the TNSP's avoided costs. Schedule 5.1a and 5.1 of the NER or any relevant electricity legislation must be considered in determining whether any network service performance requirements have not been met or exceeded.
10. The price for a negotiated transmission service must be the same for all Transmission Network Users. The exception is if there is a material difference in the costs of providing the negotiated transmission service to different Transmission Network Users or classes of Transmission Network Users.
11. The price for a negotiated transmission service must be subject to adjustment over time to the extent that the assets used to provide that service are subsequently used to provide services to another person. In such cases the adjustment must reflect the extent to which the costs of that asset are being recovered through charges to that other person.

12. The price for a negotiated transmission service must be such as to enable the TNSP to recover the efficient costs of complying with all regulatory obligations associated with the provision of the negotiated transmission service.

Criteria for access charges

Access charges

13. Any access charges must be based on the costs reasonably incurred by the TNSP in providing Transmission Network User access. This includes the compensation for forgone revenue referred to in clause 5.4A(h) to (j) of the NER and the costs that are likely to be incurred by a person referred to in clause 5.4A(h) to (j) of the NER (as appropriate).

4 Pricing methodology

The pricing methodology that will apply to Powerlink for the period of this determination is set out in Attachment B.

The role of Powerlink's pricing methodology is to answer the question 'who should pay how much'¹⁸ in order for Powerlink to recover its costs. Powerlink's pricing methodology provides a 'formula, process or approach'¹⁹ that when applied:

- allocates the aggregate annual revenue requirement to the categories of prescribed transmission services that a transmission business provides and to the connection points of network users²⁰
- determines the structure of prices that a transmission business may charge for each category of prescribed transmission services.²¹

Powerlink's pricing methodology relates to prescribed transmission services only.

¹⁸ AEMC, *Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, 21 December 2006, p. 1.

¹⁹ NER, cl. 6A.24.1(b).

²⁰ NER, cl. 6A.24.1(b)(1).

²¹ NER, cl. 6A.24.1(b)(2).

5 Pass through events

A pass through event is one which entails Powerlink incurring materially lower or higher costs in providing prescribed transmission services than it would have incurred but for that event (a negative or positive change event, respectively).²² Where a pass through event occurs Powerlink may seek our approval to, or we may require Powerlink to pass those cost changes through to its users.²³

Under the NER any of the following is a pass through event for this transmission determination:²⁴

- a regulatory change event
- a service standard event
- a tax change event
- an insurance event
- any other event specified in this transmission determination as a pass through event for this determination.

The first four of these pass through events are prescribed by, and defined in, the NER.²⁵ In addition, the following nominated pass through events will apply:

Table 5-1 Approved nominated pass through events

Event	Definition
Insurance cap	<p>An insurance cap event occurs if:</p> <ol style="list-style-type: none"> 1. Powerlink makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy; 2. Powerlink incurs costs beyond the relevant policy limit of the relevant insurance policy at the time of the event that gives rise to the relevant claim; and 3. The costs beyond the relevant policy limit materially increase the costs to Powerlink of providing prescribed transmission services. <p>For this Insurance Cap Event:</p> <ol style="list-style-type: none"> 1. The relevant policy limit is the greater of: <ol style="list-style-type: none"> (a) Powerlink's actual policy limit at the time of the event that gives, or would have given rise to a claim; and

²² NER, Chapter 10 Glossary.

²³ NER, cl. 6A.7.3(a), (b).

²⁴ NER, cl. 6A.7.3(1a).

²⁵ NER, Chapter 10 Glossary.

Event	Definition
	<p>(b) the policy limit that is explicitly or implicitly commensurate with the allowance for insurance premiums that is included in the forecast operating expenditure allowance approved in the AER's final decision for the regulatory period in which the insurance policy is issued.</p> <p>2. A relevant insurance policy is an insurance policy held during the 2017/18 to 2021/22 regulatory control period or a previous regulatory control period in which Powerlink was regulated, and</p> <p>3. Powerlink will be deemed to have made a claim on a relevant insurance policy if the claim made by a related body corporate of Powerlink in relation to any aspects of Powerlink's prescribed transmission services.</p> <p>Note: in making a determination on an Insurance Cap Event, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i. the insurance policy for the event; ii. the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and iii. any assessment by the AER of Powerlink's insurance documented in respect of its transmission determination for the relevant period.
Terrorism event	<p>A terrorism event is:</p> <p>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 which increases the costs to Powerlink 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 Powerlink 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 an act of terrorism event has occurred.
Insurer credit risk event	<p>An insurer credit risk event occurs if:</p> <p>A nominated insurer of Powerlink becomes insolvent, and</p>

Event	Definition
	<p>as a result, in respect of an existing, or potential, claim for a risk that was insured by the insolvent insurer, Powerlink:</p> <ul style="list-style-type: none"> <li data-bbox="842 315 1342 427">i. is subject to a materially higher or lower claim limit or a materially higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or <li data-bbox="842 450 1342 562">ii. Incurs additional costs associated with self-funding an insurance claim, which would otherwise have been covered by the insolvent insurer. <p>Note: In assessing an insurer's credit risk event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> <li data-bbox="863 680 1362 792">(a) 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 <p>In the event that a claim would have been made after the insurance provider became insolvent, whether Powerlink had reasonable opportunity to insure the risk with a different provider.</p>