

7 October 2020

Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator

Submitted electronically



Dear Mr Roberts,

Submission to Endeavour Energy cost pass-through for 2019-20 summer bushfires

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AER's consultation on Endeavour Energy's cost pass-through application.

2019-20 summer bushfire costs

PIAC supports allowing Endeavour Energy to recover efficient costs incurred as a result of the bushfires that were not provided for in the revenue allowance and smoothing its recovery from consumers across several years. We expect the AER, as an expert regulator, to determine the efficient and prudent amount to allow and the specifics of how to smooth the recovery.

It is essential to determine what constitutes an efficient cost to be passed through to allow network businesses to recover reasonable costs but prevent 'double dipping' from consumers. We welcome that Endeavour Energy has sought to identify and exclude from this application costs that would have been provided for in their existing revenue allowance and other costs they have deferred or avoided due to bushfire recovery (such as deferred tree management and pole inspections).

However, relying on the particular costs incurred in the 2017-18 efficient base year can make this process sensitive to the particular events of that base year. PIAC questions Endeavour Energy's decision to not count the emergency response costs incurred in 2017-18 (which helped form their current opex allowance) as it was due to storm damage rather than bushfires. We do not consider that emergency response costs and networks' responsibilities to manage them in relation to storms, bushfires or other extreme weather events are sufficiently different to warrant these being treated as separate and non-comparable in this way.

It is also not clear how the proposal has accounted for potential efficiency gains and cost deferrals as a result of reprioritising work across their network in order to respond to the bushfires.

We recommend the AER consider these factors in determining an appropriate pass-through amount.

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Treatment of future extreme event recovery costs

This cost pass-through application highlights the issues of risk management for extreme weather events and how standards for reliability are to be treated. With a changing climate and projections of more frequent and more severe weather events, we need mechanisms that deliver a resilient energy system where costs are distributed fairly.

The question of who pays for the damage caused by extreme weather events is also one about how risk is managed by regulated businesses. In general, risk should be borne by those best placed to manage it, but in this case, implementing the preferences of consumers is particularly important. This question of risk allocation and consumer preference is an important one to explore fully with consumers and consumer representatives.

There are two basic approaches for network businesses managing the risk to infrastructure caused by extreme weather events.

In the first approach network businesses could be expected to manage the risk of extreme weather events itself through their planning and decision making. They may even be able to justify that the cost of over-adaptation to climate risk is actually less expensive than under-adaptation. For example, for a small additional cost, infrastructure could be made significantly more resilient, saving the cost to replace or significantly repair it should it be hit by extreme weather. In this case, the businesses may be able to justify augmenting certain infrastructure to withstand more extreme weather events with the expense passed on to consumers.

Alternatively, the expense of augmenting infrastructure to withstand extreme weather events might be deemed inefficient. For example, it might be considered too difficult to predict where an extreme weather event will strike and how it would impact infrastructure. In this case, consumers would carry the risk of the costs to repair or replace infrastructure being passed through as the damage occurs. This approach dilutes the responsibility of businesses to plan for changing climate as they are able to simply pass on the costs for repair or replacement of infrastructure on to consumers.

PIAC is not commenting on which of the approaches is more appropriate. However, this cost pass-through application is a reminder that damage to network infrastructure from extreme weather events is likely to increase and that the impact of extreme weather events needs to be considered and planned for across a number of regulated processes.

It would be timely for a more strategic review to consider how to fairly incorporate these into the risk allocation and cost recovery frameworks of the NEM.

Continued engagement

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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