21 December 2020

Sebastian Roberts
General Manager
Australian Energy Regulator

Sent via email

Dear Mr Roberts,

Submission to TransGrid cost pass through application for 2019-20 bushfire season

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 TransGrid's cost pass through application for the 2019-20 bushfire season.

2019-20 summer bushfire costs

Any positive cost pass through must establish that the expenditure in question is not only efficient but also that it is additional to what has been allowed in a revenue determination to prevent 'double dipping' from consumers.

PIAC welcomes that TransGrid has taken steps to ensure that the restoration and repair work conducted, and hence the costs incurred, are prudent and efficient. For instance, TransGrid has stated they:

> only included items for repair that are required to manage network safety risk to ALARP. For example, there are several transmission line spans which had minor damage but currently pose minimal risk. Remediating these to pre-bushfire condition would be considered disproportionate under ALARP. We will instead continue to monitor these issues during routine inspections and re-assess the condition and risk after each inspection.[1]

However, PIAC is still unconvinced the full amount sought in this application should be allowed, and it is unclear whether it is entirely additional to what was allowed in the 2018-23 revenue determination.

It is realistic to expect some fire and other extreme-event-related costs will be incurred within a regulatory control period, even if not in one particular year. Revenue allowances, in particular opex, are set accordingly. Therefore, it is reasonable to expect evidence that additional costs sought are beyond what would be anticipated in setting the revenue allowance.

1 TransGrid, *Cost pass through application 2019-20 Bushfire season*, November 2020, 3.

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While it would be excessive and inefficient to plan for and set revenues assuming major bushfires would occur every year, it is similarly and inefficient to allow a cost pass through at every opportunity. PIAC does not consider this case has been made.

Additionally, while TransGrid has identified and deducted some routine vegetation management costs from the amount sought in this application,[2] it is unclear whether similar deductions ought to be made to other expenditure categories. For instance, there are likely to have been potential efficiency gains and other cost deferrals as a result of reprioritising work across the network in order to respond to the bushfires which may result in avoided costs in network repair and condition assessment.

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.

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.

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2 Ibid, 4 and 15.

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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