

30 July 2020

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Victoria 3001



Submitted via email to: AERInquiry@aer.gov.au

Dear Mr Roberts,

Submission to AusNet Services' transmission tower collapse cost pass through application

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 review of AusNet Services' transmission tower collapse cost pass through application.

Whilst this process concerns a Victorian network business and PIAC represents NSW energy consumers, we are making this submission because AusNet Services' application has implications for consumers across the NEM about how extreme weather events are planned for and dealt with in regulation.

With a changing climate and projections of more common and more severe extreme weather events, we need mechanisms that result in a resilient energy system where costs are distributed fairly.

AusNet Services' application to the AER highlights the core issues of risk management and how standards for reliability are to be treated. 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.

Planning for extreme weather events is relevant not only to single infrastructure damage, but has a range of applications including on the Value of Customer Reliability/Widespread and Long Duration Outages, capex allowances in revenue proposals, Regulatory Investment Tests, Service Target Performance Investment Scheme, F-Factor (Vic), pass through applications related to major event days, Stand Alone Power Systems and microgrid planning, as well as insurance.

Two approaches to risk management of damage from extreme weather

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

Level 5, 175 Liverpool St
Sydney NSW 2000
Phone: 61 2 8898 6500
Fax: 61 2 8898 6555
www.piac.asn.au
ABN: 77 002 773 524

In the first approach network businesses could be expected to manage the risk of extreme weather events (such as the transmission tower collapse in this cost pass through application) 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 tolerate higher wind conditions or other anticipated 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.

The need for a resilient and fair cost recovery mechanism in the context of a changing climate

Both approaches outlined above rely on substantial assumptions about the nature and recoverability of major outages. Other factors to consider include the role of insurance, the willingness of insurers to manage climate risk and the extent to which network businesses and regulators have a responsibility to use climate modelling to predict infrastructure vulnerability to extreme weather events.

In this submission PIAC is not commenting on which of the approaches is the more appropriate. However, AusNet Services' 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,

Thea Bray

Policy Officer, Energy and Water
Public Interest Advocacy Centre

Direct phone: [REDACTED]

E-mail: [REDACTED]