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CCP14

Advice to the AER on the SA Power Networks'  
Regulatory Determination 2020-25

Additional submission  
Contingent Project and Opex Step Change  
February 2020

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**AER Consumer Challenge Panel - Sub-Panel CCP14**

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## **Confidentiality**

I wish to advise that to the best of my knowledge this advice neither presents any confidential information nor relies on confidential information for the comments.

## **The Consumer Challenge Panel sub-panel CCP14**

The AER established the Consumer Challenge Panel (CCP) in July 2013 as part of its Better Regulation reforms. These reforms aimed to deliver an improved regulatory framework focused on the long-term interests of consumers.

The CCP assists the AER to make better regulatory determinations by providing input on issues of importance to consumers. The expert members of the CCP bring consumer perspectives to the AER to better balance the range of views considered as part of the AER's decisions.

The author of this submission is CCP14, a sub-panel of the AER's Consumer Challenge Panel that the AER has established to focus specifically on the AER's regulatory determination of SA Power Networks, Energex and Ergon Energy for 2020-2025. CCP14 has provided advice related to these determinations throughout 2018 – 20, which can be found on the AER website.

CCP14 members are Mark Grenning (until February 2020), Louse Benjamin (to September 2019) and Mike Swanston.

# 1 Contingent project

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This submission by SAPN is not unexpected. The devastating fires in South-east Australia have highlighted the risk of longer and more severe bushfire seasons, and electricity distributors are reviewing their obligations regarding acceptable fire start risks and the resilience of the electricity supply to major fire disasters.

Based on the information provided to consumers in the 2020-25 regulatory proposal, SAPN takes an effective and responsible approach to managing fire start risk and network resilience. Granted, the approach is not as aggressive as that seen in Victoria, however given the different circumstances in South Australia the actions outlined in the proposal demonstrate a commitment by SAPN to identify and respond to the fire start risks.

In relation to SAPN's proposal for a contingent project for investment that may result from the SA government's bushfire risk review, the following points are made for consideration by the AER:

## 1. ***Community support exists for the proposal.***

Given the increased obligations on networks following the Victorian Royal Commission, it is not unreasonable for SAPN to consider a contingent project for actions that may arise from the SA investigation.

It is expected (hoped) that there will be widespread consultation on this matter, including the SA Government consultation with relevant stakeholders during the conduct of its review on bushfire mitigation options. Should the review culminate in new obligations on SA Power Networks in the form of new or revised regulations, ESCoSA's Electricity Distribution Code or other instruments, there is a community expectation for further stakeholder consultation on any draft obligations.

Any contingent project application to the AER by SA Power Networks for additional funds to meet new obligations is subject to the NER should be dependent on:

- a) The proposed contingent project being accepted by the AER as part of the April 2020 final determination;
- b) The SA Government triggering the project by placing new and specific bushfire mitigation obligations on SA Power Networks;
- c) The proposed capital works exceeding a materiality threshold of 5% of the 2020/21 revenue (which we expect to be circa \$38M); and
- d) SA Power Networks identifying incremental capital and operating expenditure for the remaining years of the 2020-25 period.

On the basis of significant further engagement being a necessary part of any additional investment, we are happy to support the proposal by SAPN. This position agrees with our observations of the limited amount of consultation that has taken place in the time available. It is understood that the SAPN-CCP will also be supporting the proposal.

## 2. ***There are already significant funds proposed by SAPN in the 2020-25 determination for projects that are likely to reduce fire start risk and improve network robustness.***

The proposed Contingent Project is intended to only fund expenditure for bushfire mitigation measures that are not already funded through the AER's April 2020 Final Determination for SA Power Networks.

In considering the need and quantum of any contingent project however, it is important to recognise that SAPN has, in their regulatory proposal 2020-25, included a number of activities which will act to reduce future bushfire risk. In the main these are works are largely business as usual. SAPN notes:

*“We are continuing our prudent bushfire risk mitigation plan to reduce the risk of our network starting fires (note the scope and cost of this program has been reduced following stakeholder feedback on the 2020-25 Draft Plan to address affordability concerns)”<sup>1</sup>*

In order to maintain the community focus on energy affordability, it is important that both SAPN and the AER consider the effective application and, if necessary, reprioritisation of funds that are likely to be available to SAPN through the 2020-25 regulatory proposal to address any outcome of the fire enquiry, before the need for additional funds are considered.

Section 6.6A.1(b)(2)(i) of the NER considers whether the proposed contingent capital expenditure *is not otherwise provided for (either in part or in whole) in the total of the forecast capital expenditure for the relevant regulatory control period which is accepted in accordance with clause 6.5.7(c) or substituted in accordance with clause 6.12.1(3)(ii) (as the case may be).*

In its proposal, SAPN has nominated a number of investments that not only focus directly on bushfire risk, but also will indirectly address fire risk and robustness. These include:

a) Safety

SAPN has proposed investment of \$11.4M for *“Targeted program to manage the risk of bushfires starting from our infrastructure in the HBRAs.”<sup>2</sup>* SAPN is proposing to install fast operating switches with remote control facilities and replace outdated surge arrestor technologies. SAPN are also investing \$16M in the current period on these technologies.

Also included in the revised proposal is \$6.1M to upgrade rural feeder protection.

b) Network reliability and resilience programmes

In the proposal, SAPN has allocated \$62.9M for initiatives to address network reliability. There is a considerable overlap between this reliability focus and actions that are likely to reduce the risk of fire starts due to asset failure or vegetation contact; including reducing the risk of conductor failure, providing advanced feeder control and protection devices, the remote control of field devices and power line undergrounding .

The AER in its draft decision suggested a reduction of \$30.3M from this programme – a position that has been rejected by SAPN and the whole programme included in the revised proposal.

In the ‘Hardening the Network’ proposal, SAPN proposes investment of \$16.2M to address poor network performance. Most, if not all, the plans under this programme are likely to assist in addressing fire start risk, including undergrounding critical line components, applying insulated overhead conductor and installing reclosers. SAPN notes one outcome of the programme is the reduction of vegetation outages from damage outside the prescribed vegetation clearance zone.<sup>3</sup> Faults due to vegetation outside the clearance zone is most certainly a risk to be considered in the bushfire risk review.

SAPN also notes further plans to develop a new protection strategy and use the CSIRO to quantify bushfire risks.<sup>4</sup>

It is noted that a number of the proposed works may not be in areas of high or medium bushfire risks.

c) Bushfire risk mitigation

SAPN’s 2020-25 regulatory proposal includes:

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<sup>1</sup> SAPN Regulatory Proposal, section 4, p 25

<sup>2</sup> SAPN 2020-25 regulatory proposal – attachment 5 (capex) p77 table 5-27

<sup>3</sup> SAPN Regulatory Proposal attachment 5.17, p5

<sup>4</sup> SAPN 2020-25 regulatory proposal – attachment 5 (capex) p81 s 5.14.7.6

- “Replacing outdated network components and install fast-operating safety switches to reduce the risk of a fire starting due to a fault affecting our infrastructure.
- “Continuing to invest in our vegetation management program, which is a crucial element in reducing the potential for a fire start, as well as managing reliability for customers.
- “In recent years we have engaged extensively with a range of stakeholders to improve outcomes from our vegetation trimming program. We have also been looking at how we can manage our program more efficiently and have delivered a number of improvements. Looking ahead, a key focus is ensuring that the vegetation clearance regulations are reviewed and framed in such a way that they will allow us to maintain safety, cut fewer trees, and reduce the overall costs of the program for customers.

SAPN notes that in the revised proposal they have reduced the scope and estimates for the continuation of the Bushfire Risk mitigation program that commenced in 2015-20, including \$8 million revised scope and estimates for two proposed reliability programs, being poorly-served customers and continuation of hardening the network program commenced in 2015-20.

d) Asset replacement

Related to risk reduction, SAPN is proposing to spend \$669M on asset replacement as well as ICT investment on a ‘Valuing and Visibility tool’ to extend capabilities in asset reliability, fault and restoration service analytics <sup>5</sup>. Within the repex plans, SAPN are already proposing expenditure of \$19.2M on a recloser replacement and \$16.4M on improved network protection.

e) Strategic

The proposal for strategic investment includes \$8.2M for the installation of network control SCADA to country substations for operational purposes. This has been reduced to a proposed \$7.4M in the revised proposal following the AER draft decision. <sup>6</sup>

Additional remote-control facilities will support timely control and response to faults as well as reduce staff exposure to risky travel at times of fire.

**3. *The AER may reconsider aspects of the 2020-25 proposal that were not deemed justified in the draft decision.***

The AER, in its draft decision, did not agree with parts of the SAPN capital investment proposal, including SCADA to substations and protection compliance. Some of these projects may assist in reducing fire risk. As the final decision on SAPN’s revenue has not been completed, the AER may see this supplementary proposal as an opportunity to reconsider its position on SAPN’s proposed capital expenditure that may assist to reduce the risk and impact of fires, perhaps reducing the imperative for additional spending through a contingent project.

**4. *We encourage SAPN to seek innovative, future-focussed approaches to fire risk and network robustness***

Emerging from the recent severe fire season, communities are highlighting the subtle differences between electricity supply resilience and network reliability through the robustness of the assets to stand up to fires. The application of remote stand-alone power supplies and Distributed Energy Resources both on the network and customer supply systems is now featuring in discussions about a reasonable and innovative fire response .

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<sup>5</sup> SAPN 2020-25 revised regulatory proposal – attachment 5 (capex) - p36 s 5.13.2.2

<sup>6</sup> SAPN 2020-25 revised regulatory proposal – attachment 5 (capex) - p55 table 5.40

Consistent with our earlier advice to the AER on the regulatory proposal, we encourage SAPN to consider the application of its world-leading DER situation in seeking innovative responses to bushfire risk challenges. Hopefully, this approach will be supported by the nature of the review and the subsequent application of the RIT-D process.

#### **5. *Note the operating cost impacts***

Understandably, SAPN has chosen to highlight the capital investment that may related to the outcome of the state fire investigation. It is important to note that bushfire mitigation and response also influences operating cost requirements, through accountabilities in vegetation management and customer services and communication.

Noting SAPN's proposal for \$183M in operating expenditure for vegetation management, as well as costs that intersect with fire risks and management such as network inspections and minor maintenance (\$247M), emergency response (\$219M) and customer services (\$154M), it is suggested that as part of any contingent project application that SAPN be required to note any expected impacts on future operating costs.

## **2 Bushfire insurance premium step change**

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SAPN has also raised the step change in operating expenditure to address the increasing cost of bushfire liability insurance cover. Again, this is not unexpected, as the same issue has been raised with CCP17 in the early days of the regulatory proposal process with the Victorian electricity distributors. Also, the events in California have clearly also impacted insurability. In relation to the step change, we note:

#### **6. *Community support exists for the proposal.***

SAPN have made a strong case supporting the need for the insurance step change. In discussions with their SAPN-CCP and the verification from other utilities raising similar cost increases, the case to consider the step change is clear and supported.

#### **7. *The sharing of risk is becoming an issue of interest to consumers***

The forecast shift in the severity and frequency of bushfires will raise community interest in how the risk is shared between utility shareholders and consumers through the pass-through of premiums. Utilities can choose to be very risk adverse and take high levels of insurance that consumers pay for through network charges. Alternatively, utilities can select to take on a greater level of financial risk, thereby reducing operating costs.

It is acknowledged that insurance is not a significant component of operating costs and hence network costs, however the approach taken by utilities should be (as much as commercially reasonable) transparent to consumers. In the assessment of the SAPN step change proposal, the AER is encouraged to note in its decision:

- a) That the price of the insurance is fair and consistent with the market
- b) That SAPN has chosen a level of self-insurance (risk sharing) that is reasonable and consistent with good industry practice
- c) SAPN has taken all reasonable steps to reduce the cost of the insurance

On point c) above, an outcome of the review may be for SAPN to produce a publicly available annual or periodic bushfire mitigation plan.

#### **8. *The AER may consider 'insurance benchmarking'***

The likelihood exists that insurance costs will become greater and will impact all utilities. Therefore, outside this particular decision, it may be useful for the AER to consider how consumers can get more confidence that the increases are efficient and appropriate.

Whilst recognising the variation in physical risk across utilities, the AER is encouraged to consider some form of benchmarking or normalisation of insurance costs, perhaps by RAB value, that will assist consumers understand and be more comfortable with the cost of insurance and how the risks are shared between the shareholder and the consumer.

### 3 Engagement

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CCP14 joined a conversation between a delegation of the SAPN-CCP and staff from SA Power Networks on Monday 24 February where the additional proposals were discussed. At that time, the SAPN\_CCP indicated general support for the SAPN proposal.

It is understood that the SAPN-CCP were also planning to meet with ESCoSA regarding the review.

To our knowledge, no other engagement has been held involving stakeholders and consumers on this specific amendment.

### 4 Other issues to consider

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1. SAPN notes a significant overspend in network safety-related investment in the current (2015-20) regulatory period (allowance \$23.9M, forecast spend \$70.1M), stating *“the forecast variance in safety augex in the 2015-20 RCP has arisen due to the implementation of a new bushfire mitigation program to ensure SA Power Networks continues to operate in accordance with good electricity industry practice”*<sup>7</sup>
2. In recent events, SAPN has exercised the legislated ability to interrupt power supply in extraordinary circumstances. At an SAPN-CCP meeting of 27 November 2019, Mr F Crisci of SAPN outlined the robust decision process that underpins the disconnection option available to SAPN in times of severe bushfire risk.

Whilst we recognise the difficult decision that faces SAPN in these circumstances, as well as the very complex (and changing) community issues that arise from such actions, procedurally SAPN has a robust and accepted practice of disconnection of power in case of fire risk at a level not seen in other states.

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<sup>7</sup> SAPN 2020-25 regulatory proposal – attachment 5 (capex) p77 table 5-26