ENDEAVOUR ENERGY

ASSET / SYSTEM FAILURE SAFETY RISK ASSESSMENT

JANUARY 2015
DOCUMENT CONTROL

This document has been prepared to the particular instructions of our client or responsible R2A director. It should only be used for the purpose for which it has been commissioned.

Risk is peculiar to time and place. So unless specifically indicated to the contrary, this report only applies to the particular situation or scenario that is the subject of this commission.

PROJECT DETAILS

Client: Endeavour Energy

Project Name: Asset / System Failure Safety Risk Assessment

Client Reference: Networks NSW RFQE2

R2A Reference: 490-01

REVISION SCHEDULE

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<td>Nicole Albert</td>
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<td>ii R2A</td>
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EXECUTIVE SUMMARY

Endeavour Energy as a PCBU (person conducting a business or undertaking) has a duty under the provisions of the Work Health and Safety Act 2011 to ensure that, for all foreseeable hazards associated with the operation of the Endeavour Energy network, all practicable precautions are in place, so far as is reasonably practicable (SFAIRP).

To meet this duty, Endeavour Energy has implemented a recognised good practice FMECA/RCM (failure mode effects and criticality analysis/reliability centered maintenance) process which optimises lifecycle costs of plant and equipment including safety performance based on the field experience of knowledgeable on-the-ground Endeavour Energy staff. This methodology underpinned Endeavour Energy’s submission to the Australian Energy Regulator (AER), particularly for network operating expenditure requirements.

The AER’s draft revenue determination proposes a 39% reduction in Capex and 23% Opex over the 5 year determination period. This would require an abrupt decrease of around 700 employees (out of 2,533) resulting in a substantial decrease in equipment inspection frequencies (typically from 4.5 to 6 years). This will have an effect on the safety performance of Endeavour Energy’s Network Operation.

If Endeavour Energy were to operate within the constraints of the draft determination, then in the short term, the number of safety incidents, especially to employees, is expected to spike due to the change in safety culture associated with this scale of staff loss. In the longer term, this analysis indicates that for the foreseeable threats to members of the public considered in this review, a doubling in fatalities from network hazards would most likely occur. In addition, the likelihood of the Endeavour Energy network starting a catastrophic bushfire (meaning 100 fatalities and 1,000 houses lost) is increased by around 60%. This assumes that existing precautions (especially vegetation clearance and asset condition inspection effectiveness) remain unchanged by the proposed revenue reductions.

The AER appears to accept that there will be an increase in unexpected events resulting from this draft determination¹:

Where an unexpected event leads to an overspend of the capex amount approved in this determination as part of total revenue, a service provider will be only required to bear 30% of this cost if the expenditure is found to be prudent and efficient. For these reasons, in the event that the

approved total revenue underestimates the total capex required, we do not consider that this should lead to undue safety or reliability issues.

The AER draft determination, is in effect, directing Endeavour Energy to disregard Endeavour Energy’s own determination of what Endeavour Energy believes is necessary to demonstrate SFAIRP under the provisions of the Work Health and Safety Act 2011.
1. EXPERT WITNESS STATEMENT

1.1 QUALIFICATIONS AND EXPERTISE

1.1.1 My name is Richard Manthey Robinson.

1.1.2 I am a Director and the Chairman of R2A Due Diligence Engineers, Melbourne. I undertake due diligence engineering reviews for a wide range of industries with a specific focus on safety.

1.1.3 I advocate the precautionary approach to risk management that is enshrined in the model Work Health and Safety Act (2011) since it supports the common law decisions of the High Court of Australia with regard to due diligence as a defence against negligence, an approach I have used since the early 90s.

1.1.4 I was the expert Risk Management Member of the Victorian Powerline Bushfire Safety Taskforce (2012-13) arising from the Victorian Royal Commission into the Black Saturday Bushfires.

The Taskforce adopted the approach I recommended which specifically included the precautionary approach to risk management consistent with the model WHS legislation. Appendix E, Threat-Barrier Analysis, was the particular responsibility of R2A and developed by the two R2A directors, Gaye Francis and I and was the basis of Cabinet’s decision, in policy terms, as to the optimal precautionary spend to prevent fires from faults on the (rural) electrical distribution network (primarily 22kV and SWER).

1.1.5 Other representative relevant experience includes:

- Member of the Independent Blasting Audit Team into fatalities in all of the then Western Mining Corporation’s mines in Western Australia (1999-2000).
- Powerlink, Substation Earthing Due Diligence Review, Qld (2013).
- Transpower, Pole 3 Commissioning Due Diligence Review, New Zealand (2012).
- MWH Global, Warragamba Dam Drum Gate FMECA, NSW (2010).
- Rail Corporation of NSW. Electrical Network Risk Analysis.
• Western Power Corporation, Mobile Substations - High Level Due Diligence Study
• Western Power Corporation, (via William Ellison Barristers) - Overhead Service Wire & Twisties Electrical Fire and Shock Hazard
• Energy Australia, Low Voltage Energised Line Working, NSW
• Energy Australia, Review of Bushfire Risk Model, NSW
• ETSA, SWER Workshops, South Australia.
• Transgrid, Pole Maintenance Workshops, NSW.
• Transmission Asset and Maintenance Workshops, ETSA South Australia.
• Pacific Power, advice on a risk based allocation process to break-up the 132kV assets between distributors and Transgrid (mid 90s).

1.1.6 I am currently the presenter of one and two day short courses for Engineering Education Australia, "Engineering Due Diligence, Defensible Management Techniques" as well as the "Safety Due Diligence and Project Due Diligence modules" for the Construction series, and a part-time Lecturer, "Introduction to Risk and Due Diligence" postgraduate unit at the Swinburne University of Technology.

1.1.7 I have degrees in Mechanical Engineering from Monash University and in Philosophy (History and Philosophy of Science) from the University of Melbourne.


Other recent relevant papers include:


1.1.9 I am a Fellow of Engineers Australia, Member of the Society of Fire Protection Engineers of the USA, an Honorary Fellow of the Australasian Marine Pilots Institute (AMPI), a Life Member of the Risk Engineering Society of Engineers Australia (2013) for my contribution to the 3rd Edition of the Engineers Australia Safety Case Guideline, and a Member of the Royal Society of Victoria.

1.2 EXPERT’S CERTIFICATE

I, Richard Manthey Robinson

Of: Level 1, 55 Hardware Lane, Melbourne VICTORIA 3000

state:

I have specialised knowledge in the field of Due Diligence Engineering and the application of the precautionary approach to the management of safety risk as set out above.

The opinions set out in my report, which is attached, are wholly or substantially based on my specialised knowledge.

I acknowledge that I have read, understand and complied with the Federal Court of Australia’s Practice Note CM7, Expert Witnesses in proceedings in the Federal Court of Australia.

I have made all the inquiries that I believe are desirable and appropriate and that no matters of significance that I regard as relevant have, to my knowledge, been withheld.

Richard Manthey Robinson

Thursday 15th January 2015
2. PURPOSE

The purpose of the asset / system failure safety risk assessment is to examine and assess the foreseeable safety risks that would arise, or would be likely to arise if Endeavour Energy, over the period 1 July 2014 to 30 June 2019, only spent the proposed allowances for operating and capital expenditure set out in the AER’s draft determination. The findings will be used to consider whether Endeavour Energy will be able to meet it’s PCBU WHS obligations based on the proposed operating and capital expenditure allowance in the draft determination.
3. BACKGROUND

3.1 ENDEAVOUR ENERGY

Endeavour Energy is responsible for the safe and reliable supply of electricity to 2.2 million people in households and businesses across Sydney’s Greater West, Blue Mountains, Southern Highlands and the Illawarra. With an estimated value of $3.3 billion, the network spans 24,500 square kilometres and is made up of over 413,000 power poles, 178 major substations and 30,000 distribution substations connected by 35,000 kilometres of underground and overhead cables.

For the financial year 2013/2014, the network generated sales revenue of $1.2744 billion and had 2,533 employees.

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Networks NSW (NNSW) refers to a cooperative operating model across Ausgrid, Endeavour Energy and Essential Energy. The objective of NNSW is to contain the future costs of building, maintaining and operating the electricity network in a safe, reliable and sustainable manner.

3.2 AER DETERMINATION BACKGROUND

The AER regulates the revenues of the distribution network service providers in eastern and southern Australia under the National Electricity Law (NEL) and National Electricity Rules (NER). The AER is required to determine the revenue allowance for the distribution network service providers under the National Electricity Rules (NER). The regulatory period for NSW is 5 years, from 1 July 2014 to 30 June 2019.

The AER’s draft determinations for the 5-year period were published on 27 November 2014. The proposed Capex and Opex expenditure for Endeavour Energy is shown in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Submission by Endeavour Energy</th>
<th>Draft by AER</th>
<th>$ difference</th>
<th>% difference</th>
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<tr>
<td><strong>CAPEX</strong></td>
<td>$1,746</td>
<td>$1,070</td>
<td>-$676</td>
<td>-39%</td>
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<tr>
<td><strong>OPEX</strong></td>
<td>$1,381</td>
<td>$1,068</td>
<td>-$313</td>
<td>-23%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$3,127</td>
<td>$2,138</td>
<td>-$989</td>
<td>-32%</td>
</tr>
</tbody>
</table>

3.3 LEGAL CONTEXT

The legislative framework in which Endeavour Energy operates is shown in the following diagram\(^4\).

The overarching legislation in relation to safety is the Work Health and Safety (WHS) Act 2011. Under the Act, Endeavour Energy is a PCBU (person conducting a business or undertaking). Under this Act, the primary duty holder has an obligation to ensure so far as is reasonably practicable (SFAIRP), the health and safety of workers (inclusive of contractors) while they are at work in the business or undertaking and that the health and safety of other persons (members of the public) is not put at risk from work carried out as part of the conduct of the business or undertaking (maintaining the safety of the Network Asset / System).

A PCBU needs to consider what is able to be done in relation to the identified risk and then the extent to which those identified control measures are reasonable in the circumstances. However, cost of itself is unlikely to be a sufficient justification for choosing a lower order safety control measure (or for not implementing a safety control measure) unless the cost is grossly disproportionate to the risk.

Officers of the PCBU must exercise due diligence to ensure that the PCBU complies with its duty or obligation under the WHS Act.

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\(^4\) Adapted from Networks NSW Presentation to AER Pre-determination Conference. 8 December 2014. Mr Vince Graham, CEO, Networks NSW.
4. **METHOD**

The review has been completed within a precautionary due diligence framework consistent with the provisions of the NSW WHS legislation following the R2A model described below and in further detail in the R2A Text. This approach has been used in a number of studies. It was expressly used in the report of the Powerline Bushfire Safety Taskforce, arising from the Royal Commission into the Black Saturday fires in Victoria all of whose recommendations were adopted by Cabinet.

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**R2A ‘Y’ Model**

As shown in the R2A ‘Y’ model above, the process has three primary steps.

a. Credible critical issues. This is a check to ensure all credible critical safety issues have been identified. In essence this asks the question: What exposed groups are we trying to protect and to what credible threats are they exposed? For this study, the purpose is to identify the most significant fatality contributors.

b. Precautionary options. This step identifies all of the practicable precautionary options for the hazard and documents them in the form of threat barrier diagrams. These are particularly useful in showing barriers (precautions and mitigations) that have an effect on multiple threats. A sample generic threat barrier diagram is shown below. For this study the purpose is to identify the precautions presently applied to the credible critical issues.

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The legislation requires that risk control must be based upon the Hierarchy of Controls which is typically, in the order of most to least preferred:

1. Elimination
2. Substitution
3. Engineering controls
4. Administrative controls
5. Personal Protective Equipment and Clothing.

In the diagram above, solid lines (barriers) represent existing controls, dotted lines possible practicable controls. Following the hierarchy above, controls should be tested from left to right on the diagram, starting with the elimination option. Controls to the left of the Loss of Control point are precautions; controls after the Loss of Control point are mitigations.

c. Precautionary analysis. This step looks at all of the precautionary options available and in view of what is already in place what further controls could be implemented. This study is a little different in that to comply with the legislation ordinarily requires an examination of what else can be done in precautionary terms. In this case the precautions to address the identified issues are being established with a view as to the impact of the likely reduction of some of these precautions because of the Opex and Capex cuts, suggesting what will be the likely change in fatality outcomes.
5. ANALYSIS

The power distribution business is an essential, complex, high risk industry. It provides substantial benefits and dangers to the community. For example, electrocution is a well known hazard to employees and members of the public. The network can start bushfires and create particular hazards for firefighters. Service interruptions present major concerns for those on life support equipment.

Asset related preventative and mitigative maintenance controls are used by Endeavour Energy to reduce the likelihood and consequence of hazardous events, particularly those events that have the potential to result in loss of life. A recognised good practice FMECA/RCM (failure modes, effects and criticality analysis / reliability centered maintenance) process is used\(^7\). The modeling algorithms have been validated by the CSIRO\(^8\).

This means that Endeavour Energy utilises pre-emptive (preventative maintenance and asset renewals) and corrective maintenance as preventative controls to identify and address possible failures before they occur in order to maintain a safe and reliable network so far as is reasonably practicable (SFAIRP) in accordance with the hierarchy of controls. Endeavour Energy also has significant capital programs for replacement of assets as their performance degrades and they reach the end of their service lives.

The proposed AER determination for Endeavour Energy is to reduce Capex by 39% and Opex by 23%.

17% of Endeavour Energy’s Opex is spent on vegetation clearance. Endeavour Energy has committed to continue with its current vegetation clearance program meaning that the effective Opex cuts will need to be greater than 23% on a smaller base.

From an Opex viewpoint, Endeavour Energy indicates that 700 immediate job reductions (out of 2,533 employees\(^9\)) may need to be implemented, plus an inability to place any Apprentices currently in training. The immediate likely safety significance of such cuts is expected to be substantial and discussed in the next section, Human Error and Safety Culture.

The Opex reduction would also have an immediate and major impact on the frequency of network equipment inspections, typically pushing it out from 4.5 to 6 years and creating a substantial increase in expected network faults. This fault rate


\(^8\) CSIRO Mathematical and Information Sciences, Report CMIS 01/44, 26 March 2001. Validation of Specified Algorithms in MIMIR.

increase is exponential in nature. This means a doubling of inspection periods can produce orders of magnitude increases in equipment failures, depending on particular equipment failure rates. This also creates alarming bushfire start potentials particularly for Catastrophic (Code Red) days. This is discussed in Section 5.3, *Catastrophic Bushfire Starts*. This is also likely to have an additional impact for public safety as discussed in Section 5.4, *Other Critical Public Safety Issues*.

### 5.1 HUMAN ERROR AND SAFETY CULTURE

The importance of a good safety culture in preventing human error and accidents in high risk industries (which includes aviation, trains, shipping, power, off shore oil and gas) has been formally recognised during the last 30 years. Presently in Australia, for example, the National Offshore Petroleum Safety and Environmental Management Authority\(^\text{10}\) (NOPSEMA) and the Australian Transport Safety Bureau (ATSB) discuss the importance of human factors and safety culture in accident prevention in some depth.

For a complex organisation in a high risk industry like Endeavour Energy, an abrupt reduction of 39% and 23% expenditure in Capex and Opex respectively represents major corporate change which is very likely to effect safety outcomes at the front line of the organisation.

The ATSB\(^\text{11}\) uses a safety culture - human factors approach as a primary basis for accident analysis, adapted from work by the British psychologist James Reason. Organisational conditions and influences in the ATSB’s view include regulatory factors. The concept flows from Reason’s biological model and his concept of a healthy organisation. He promotes the notion of latent conditions which for Reason are the things that enable competent people working in complex systems to make mistakes. Reason believes that\(^\text{12}\).

> They arise from strategic and other top-level decisions made by governments, regulators, manufacturers, designers and organizational managers.

---


Reason\textsuperscript{13} notes in his introduction to Andrew Hopkins’ 2005 book, *Safety Culture and Risk, The Organisational Causes of Disasters* that:

*Much as it was (and still is) managerially and legally convenient to blame those in the front line, it was gradually becoming apparent that accidents in well-defended systems arose from a concatenation of many different factors arising from all levels of the organisation.*

This overall safety culture argument is summarised at some length in the Special Commission of Inquiry into the Waterfall Accident. In the Executive Summary, the Commissioner\textsuperscript{14} notes:

*Management of safety cannot be divorced from the overall management of the railway business in which a company is engaged.*

### 5.2 CREDIBLE CRITICAL ISSUES

A review of Endeavour Energy’s incidents was completed. Over the last 10 years there have been recorded incidents of unassisted pole failures, equipment fires / explosions and neutral integrity faults. However, none have resulted in a reported fatality.

Given the incident data and industry knowledge, controllable network asset/system related failures that have, or could foreseeably cause a fatality and/or injury or property damage and about which Endeavour Energy are greatly concerned include:

- Failed poles and cross arms
- Low and fallen conductors
- Faulty service wires
- Equipment fire or explosion (particularly as a bushfire start)
- Loss of neutral integrity to customer premises

These potentially have fatality risk consequences to members of the public as a result of:

- Bushfire or other fire causing death and property damage
- Electrocution due to contact with failed electrical assets
- Being struck by falling network equipment or material expelled by hot gases or explosion
- Collision with poles
- Loss of electricity supply causing fatal risk to customers on life support equipment

\textsuperscript{13} Andrew Hopkins 2005. *Safety, Culture and Risk*. The Organisational Causes of Disaster. CCH Australia Limited.

\textsuperscript{14} The Honourable Peter Aloysius McInerney QC *Special Commission of Inquiry into the Waterfall Rail Accident*. Final Report Volume 1 January 2005. Executive Summary p ii.
5.3 CATASTROPHIC BUSHFIRE STARTS

The following table summarises the major bushfires in NSW (and ACT) for the last 76 years.\(^{15}\)

<table>
<thead>
<tr>
<th>Date</th>
<th>No. Deaths</th>
<th>Area (ha)</th>
<th>Losses</th>
<th>Location(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938 December – 1939 January</td>
<td>13</td>
<td>73000</td>
<td>Many houses, pine plantations</td>
<td>Dubbo, Lugarno, Snowy Mountains, Canberra</td>
</tr>
<tr>
<td>1951 November – 1952 January</td>
<td>11</td>
<td>&gt;4 000 000</td>
<td></td>
<td>Worst affected district around Wagga, Wagga and Pilliga in the north-west</td>
</tr>
<tr>
<td>1968 September – 1969 January</td>
<td>14</td>
<td>&gt;2 000 000</td>
<td>161 buildings (80 houses)</td>
<td>South Coast (Sept.), much of the coastal and nearby range areas of the state</td>
</tr>
<tr>
<td>1974–75</td>
<td>6</td>
<td>4 500 000</td>
<td>50 000 stock, 10 170km fencing</td>
<td>Bourke to Balranald, Cobar Shire, Moolah—Corinya—most of the Western Division</td>
</tr>
<tr>
<td>1977–78</td>
<td>3</td>
<td>54000</td>
<td>49 buildings</td>
<td>Blue Mountains</td>
</tr>
<tr>
<td>1978–79</td>
<td>Nil</td>
<td>&gt;50 000</td>
<td>5 houses, heavy stock loss</td>
<td>Southern Highlands, south-west slopes</td>
</tr>
<tr>
<td>1979–80</td>
<td>13</td>
<td>&gt;1 000 000</td>
<td>14 houses</td>
<td>Mudgee, Warringah and Sutherland Shires, majority of council area, Goulburn and South Coast</td>
</tr>
<tr>
<td>1984–85</td>
<td>5</td>
<td>&gt;3 500 000</td>
<td>40 000 stock, $40 million damage</td>
<td>Western Division</td>
</tr>
<tr>
<td>1990–91</td>
<td>Nil</td>
<td>&gt;280 000</td>
<td>8 houses, 176 000 sheep, 200 cattle, hundreds of km of fencing</td>
<td>Local government shires of Hay, Murrumbidgee, Carrathool; Hornsby, Ku-ring-gai, Cessnock, Hawkesbury, Warringah, Wollondilly, Gosford, Wyong</td>
</tr>
<tr>
<td>1991–92</td>
<td>2</td>
<td>30 fires</td>
<td>14 houses</td>
<td>Baulkham Hills, Gosford City, Wyong Shire, Lake Macquarie</td>
</tr>
<tr>
<td>1993 December – 1994 January</td>
<td>4</td>
<td>&gt;800 000</td>
<td>206 houses destroyed, 80 other premises destroyed</td>
<td>North Coast, Hunter, South Coast, Blue Mountains, Baulkham Hills, Sutherland, most of Royal National Park, Blue Mountains, Warringah—Pittwater</td>
</tr>
<tr>
<td>2001 December – 2002 January</td>
<td>Nil</td>
<td>744 000 (454 Fires)</td>
<td>109 houses destroyed; 6000 head of livestock</td>
<td>Across 44 local government areas in the Greater Sydney, Hunter, North Coast, mid-north coast, Northern Tablelands, Central Tablelands areas</td>
</tr>
<tr>
<td>2002 July – 2003 February</td>
<td>3</td>
<td>1 464 000 (459 fires)</td>
<td>86 houses destroyed; 3400 stock; 151 days of severe fire activity</td>
<td>81 local government areas in Greater Sydney, Hunter, North Coast, Northern Tablelands, Northern Rivers, north-west slopes, north-west plains, Central Tablelands, Southern Tablelands, Illawarra, South Coast</td>
</tr>
<tr>
<td>2012-13</td>
<td>Nil</td>
<td>1.4 million ha</td>
<td>62 homes destroyed; 5,885 bush and grass fires; large areas of Catastrophic fire danger</td>
<td>Coonabarabran, Shoalhaven, Yass, Cooma-Monaro, Greater Sydney, Far West NSW, Northern Rivers and Northern Tablelands</td>
</tr>
<tr>
<td>2013-14</td>
<td>2</td>
<td>575 000 ha</td>
<td>217 homes destroyed; 129 damaged.</td>
<td>Blue Mountains, Central Coast, Southern Highlands, Port Stephens, Riverina, North Coast</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td></td>
<td>801 houses</td>
<td></td>
</tr>
</tbody>
</table>

### Major Fires in NSW

This history suggests that major fires occur about every 5 years in NSW which results in the deaths of around 5 persons and the destruction of around 50 houses.\(^{16}\)

\(^{15}\) History of Fires in NSW as provided by the NSW Rural Fire Service 7\(^{th}\) January 2015.

\(^{16}\) This is based on dividing the total deaths and houses lost by the number of fire seasons.
The state of NSW has not suffered the type of catastrophic bushfire that has occurred in Victoria. However, Professor Tolhurst’s draft report\(^\text{17}\) into bushfire risk for power distributors in NSW notes in the summary:

This analysis has shown that there are several areas in the study area where Catastrophic impacts could occur, i.e. where more than 1,000 houses could be lost in a single event. Fires starting in the Katoomba, Blue Mountains, Sydney Basin, Nowra, Yass, Goulburn, Canberra, and south of Newcastle areas all had the potential to be Catastrophic under the “worst-case” conditions considered.

Based on Victorian experience, the loss of 1,000 houses correlates to upwards of 100 deaths\(^\text{18}\).

The Victorian Powerline Bushfire Safety Taskforce\(^\text{19}\) reported that:

Historically, powerlines are thought to start a relatively small proportion of bushfires (around 1-4%). Significantly, inquiries following major bushfires and the Royal Commission have concluded that on a disproportionate number of catastrophic bushfires, with major loss of life and property, have been caused by powerlines. Powerlines are thought to have started:

- Nine of the 16 fires on 12 February 1977
- Four of the eight major fires on Ash Wednesday (16 February 1983)
- Five of the 15 major fires on Black Saturday (7 February 2009) that were considered by the Royal Commission.

As noted above, the Victorian Bushfire Royal Commission (VBRC) concluded that\(^\text{20}\) 5 of the 15 fire starts on Black Saturday were associated with the failure of electricity assets. The Commission went on to say that:

Distribution businesses’ capacity to respond to an ageing network is, however, constrained by the electricity industry’s economic regulatory regime. The regime favours the status quo and makes it difficult to bring about substantial reform. As components of the distribution network age and approach the end of their engineering life, there will probably be an increase in the number of fires resulting from asset failures unless urgent preventive steps are taken.

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\(^{18}\) In the Black Saturday fires, there were 2133 houses destroyed and 173 deaths occurred. 2009 Victorian Bushfires Royal Commission. Final Report Summary.


The latest report by EnergySafe Victoria\(^{21}\) (ESV) seems to confirm this increase in fire starts and asset failures.

The performance of the Victorian electricity distribution network has, on average, deteriorated each year for the past three years. This is, however, not uniform across the industry with some of the Victorian MECs, principally SP AusNet, improving its performance. Overall trends have continued into the first quarter of 2014. In 2013 there were:

- **925 fire starts** from electrical distribution assets, which have increased each year for the past three years. This number exceeds the annual f-factor target of 870 fires
- **2269 electrical distribution asset failures**, which have increased each year for the past three years. This is compared with 1119 asset failures in 2011
- **780 fire starts due to asset failure**. These have increased each year from 341 fire starts in 2011, mostly due to pole top structure failures.

and:

Notwithstanding the significant capital investment and maintenance expenditure being made in the network, and the effort that has been put into condition assessment, ESV would have expected to see a reduction in the number of asset failures. Despite these targeted programs, the number of asset failures has increased, especially power pole top, HV fuse, LV asset, bare conductor, and HV ties. The failure rate remains high and is the major cause of asset and vegetation fires.

The total number of asset failures in 2013 (2269 compared with 1119 in 2011) represents a 103 per cent increase in two years.

The Rural Fire Service (RFS) has introduced the concept of a Catastrophic (Code Red) for some total fire ban (Toban) days as shown in the picture below of the Fire Danger Rating Today sign extracted from the RFS publication Total Fire Bans Factsheet\(^{22}\). As the sign suggests, a Catastrophic rated day is a subset of total Toban days.


Total Fire Ban (Toban) and Catastrophic

Substantial work has been occurring to determine the probability of starting fires from network faults on Catastrophic (Code Red) days. The work of the Powerline Bushfire Safety Taskforce confirmed that 22kV electric arcs (shown below) can almost instantly start fires.

Electric arcs produced during testing

Further work reveals that under Ash Wednesday conditions a fallen conductor will most likely start a fire as shown below.

Distribution of conductor-soil arcs at instant of initial contact (16 amps, 19/3.25AAC conductor)

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The threat barrier diagram below describes the key fire start mechanisms and barriers on a Catastrophic (Code Red) day. This is usually much worse than an ordinary Toban day. Fires start more easily, grow faster and there is just so much fire about that the effectiveness of the emergency response is reduced. There are not enough firefighters and emergency response equipment to go round. This makes the success requirements of the other barriers more important.

Catastrophic (code red) day fire start threat barrier diagram

Based on the draft determination of the AER, the 23% reduction in Opex is expected to increase the inspection cycle on poles (and associated equipment) from around 4.5 years to around 6 years\(^25\). That is moving from the blue line to the orange line as shown below\(^26\).

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\(^{25}\) Calculated on the basis of the inspection effort being reduced by the AER draft determination expenditure cut. That is: 4.5 years \(/(1-0.23) = 5.8\) years.

The important aspect of this is the rapid increase in the collective functional failures of the poles associated with the increase in the inspection period required by the AER draft determination, shown by the purple line.

For example\(^\text{27}\), the maintenance period optimisation undertaken as part of the FMECA/RCM analysis review in 2009-2011 is summarised below for the critical failure modes associated with wood poles. The expected multipliers for functional failure (breakdown) events for poles with the extended inspection period is also tabulated based on an inspection cycle increase from 4.5 to 6 years.

<table>
<thead>
<tr>
<th>Failure mode</th>
<th>Expected multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood pole Broken / damaged due to Mechanical overload - tree limbs, etc.</td>
<td>2.9</td>
</tr>
<tr>
<td>Wood pole Leaning due to Mechanically overloaded by conductors.</td>
<td>2.0</td>
</tr>
<tr>
<td>Wood pole Leaning due to Failure of stay wire arrangement.</td>
<td>2.9</td>
</tr>
<tr>
<td>Wood pole Buried / exposed due to Ground level changes / erosion.</td>
<td>2.4</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Rot - Other.</td>
<td>3.9</td>
</tr>
<tr>
<td>Wood pole Broken / damaged due to Lightning strike.</td>
<td>13.3</td>
</tr>
<tr>
<td>Wood pole Bad head due to Rot / splits in upper section of pole.</td>
<td>4.5</td>
</tr>
<tr>
<td>Reinstated pole Leaning / failed due to Timber degradation near attachment.</td>
<td>2.9</td>
</tr>
<tr>
<td>Reinstated pole Leaning / failed due to Corroded pole nail / splint / fittings.</td>
<td>2.9</td>
</tr>
<tr>
<td>Wood pole Broken / damaged due to Vehicle impact.</td>
<td>2.6</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Fire damage.</td>
<td>2.9</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Cracking / splitting.</td>
<td>3.7</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Termites - Coptotermes.</td>
<td>4.6</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Termites - Glyptotermes.</td>
<td>1.9</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Rot - Brown.</td>
<td>3.0</td>
</tr>
<tr>
<td>Wood pole Leaning due to Pole footing failure.</td>
<td>5.1</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Termites - Nasutitermes.</td>
<td>5.1</td>
</tr>
<tr>
<td>Wood pole Obstructed by vegetation due to Normal vegetation growth.</td>
<td>3.0</td>
</tr>
<tr>
<td>Wood pole Dangerously hanging sapwood due to Timber ageing.</td>
<td>8.5</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Pipe in pole.</td>
<td>2.9</td>
</tr>
<tr>
<td>Wood pole Leaning due to Vehicle impact.</td>
<td>2.9</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Termite attack - General.</td>
<td>2.4</td>
</tr>
<tr>
<td>Reinstated pole Leaning / failed due to C-splint bands slipped.</td>
<td>9</td>
</tr>
<tr>
<td>Wood pole strength degraded due to open knot holes.</td>
<td>2.5</td>
</tr>
<tr>
<td>Wood pole strength degraded due to Rot - white.</td>
<td>2</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td><strong>3.9</strong></td>
</tr>
</tbody>
</table>

Based on the FMECA/RCM model used by Endeavour Energy, this is expected to increase wood pole failure rates by about a factor of 2.8\(^\text{28}\). Endeavour Energy had 7 unassisted pole failures in FY13/14\(^\text{29}\). This is expected to increase to around 20 failures per annum once the full effect of the extended inspection cycles becomes apparent.

Assuming a similar increased failure rate for other pole top elements this means the equipment fault rate that might start a fire will increase by a factor of around 3 for


\(\text{28}\) The calculated figure from the FMECA/RCM data taking pole population figures into account is 2.8. See the reference in the following footnote.

pole related failures which includes the poles themselves, cross arms, insulators, ties and conductors\textsuperscript{30}.

In terms of the model above, if each fire start threat category has an equal contribution to fire starts on Catastrophic (Code Red) days (following the VBRC indications), and, ignoring any impacts of reduced barrier effectiveness due to the Opex changes (particularly the vegetation clearance effectiveness), if the equipment failure rate fire starts increased by a factor of 3, then, all other matters being equal, the overall fire starts due to network faults would increase by a factor of around 1.6\textsuperscript{31}.

If major fires in NSW as a whole occur once every 5 years and the Endeavour Energy network accounts for one third of these, then instead of a major fire (5 deaths and 100 houses) every 15 years in the Endeavour Energy region, they would increase to around once every 10 years\textsuperscript{32}. This characterisation ignores the increased possibility of the potential for a catastrophic event of 1,000 house (and presumably upwards of 100 lives) losses mentioned in Professor Tolhurst’s draft report.

Such an understanding reinforces the concerns of the NSW Rural Fire Service\textsuperscript{33} and NSW Fire & Rescue\textsuperscript{34}. Essentially, if the equipment failure rates increase as predicted, and barrier effectiveness declines (for example, the vegetation clearance program reductions) coincidently with an increase in the number of Catastrophic (Code Red) days (possibly due to global warming) then the fire starts would increase exponentially effectively transferring a huge safety risk to the emergency services and the larger community.

As an indication of the order of magnitude of community costs associated with catastrophic events, the very recent resolution of the Black Saturday Kilmore East bushfire class action in Victoria\textsuperscript{35} of $494m underscores this situation. SP AusNet agreed to pay $378m and Utility Services Corporation Ltd $12.5m. The Victorian Government which includes Victoria Police and the Country Fire Authority, have agreed to pay $103.6m.

\textsuperscript{30} Endeavour Energy has access to data to calculate an average value for all these items, but this has not been done at this point in time.
\textsuperscript{31} Calculated on the basis that one of the three fire start sources (network faults) has increased by a factor of 3. That is, increasing the fire starts ratio from 3 to 5, or 5\div3 = 1.6.
\textsuperscript{32} The arithmetic for this paragraph is as follows: Endeavour Energy increases fire starts by about a factor of 3 on Catastrophic (Code Red) days. The present major fire frequency in NSW (presumed to occur on what is now defined as a Catastrophic (Code Red) day) as a whole is around 1 in 5 years. Endeavour Energy is one of 3 networks in NSW. This means the new estimated fire start frequency is about: 1.6\div(3\times3) = 0.1 pa or around 1 in 10 years in the Endeavour Energy network area.
\textsuperscript{33} Mr Shane Fitzsimmons, Commissioner of the NSW Rural Fire Service. 5 December 2014 in a letter to Mr Vince Graham.
\textsuperscript{34} Mr Greg Mullins, Commissioner, NSW Fire and Rescue, 4 December 2014 in a letter to Mr Vince Graham.
5.4 OTHER CRITICAL PUBLIC SAFETY ISSUES

ELECTROCUTION

The following threat barrier diagram has been developed for electrocution threats especially due to low and fallen conductors. A low or fallen conductor can result from mechanisms including a fallen pole, broken cross bar, failed insulator, failed tie or broken conductor.

Electrocution threat-barrier diagram

The current Endeavour Energy Capex and Opex requirements is based on a FMECA/RCM (failure modes effects and criticality analysis / reliability centred maintenance) process. It is built bottom up based each individual asset (for example, pole or conductor span) on the optimisation of Capex and Opex.

Based on an expected increase in the inspection regime of around 4.5 to 6 years as required under the draft determination, an increase in failure rates of around 3 is expected per element, in the first instance based on the pole analysis above.

FALLING OBJECTS

Falling objects can result from mechanisms including falling poles, broken cross arms, failed insulators, broken conductors (being hit by a falling wire, even if it is de-energised remains a significant hazard).

Falling objects threat-barrier diagram

Based on a similar analysis above, it is expected that the increase in incidents per annum directly related to the predicted pole RCM increase of around 3.
COLLISION WITH POLES

The proposed reduction in expenditure will eliminate the capacity for Endeavour Energy to continue with the Black Spot Program for the relocation of power poles. Of the three NSW Network Businesses, Endeavour Energy has been the originator of this program investing more than $7 million over the past five years in the relocation of power poles. The program contributed to the reduction of driver fatalities reducing the average rate from 14.9 fatalities per year (in the previous ten year period) to an average of 5 fatalities per year over the last five years within the same franchise area.\(^\text{36}\)

Loss of service as it may affect customers on life support would appear to be similarly increased. This appears more difficult to model. Whilst service wire faults and loss of neutral integrity to customer premises would directly affect premises, other faults may be mitigated by network redundancy and control systems.

5.5 MORTALITY IMPACT OF AER DRAFT DETERMINATION

5.5.1 OPEX

Distribution assets typically have a life time replacement cycle of around 50 years. But in service conditions vary, for example, wooden poles in termite infested regions are subject to earlier failure. To avoid such failure, such poles are inspected regularly. The frequency of the inspection is determined by an assessment as to the likelihood of that class of equipment surviving until the next inspection. So, for example, looking at the wood poles for Endeavour Energy, a 4.5 year inspection is presently optimal, replacing suspect poles thereby enabling optimal survival of all poles until the next inspection. If the inspection cycle is increased to 6 years, which is understood to be necessary to achieve the draft determination, more would fail within the inspection period (unless of course they were replaced with poles capable of lasting 6 years).

This also means that the immediate failure consequences of extending the inspection periods would not be noticed for probably 1-2 years or so. It would gradually become apparent and only really show up during the 5th year. Conceptually, it would only be the poles entering the 6th year that should be at risk. and Capex replacement implications very high if the poles haven’t failed already (breakdown maintenance). In short, extending the inspection cycle would provide a short term gain but greater medium and long term cost.

<table>
<thead>
<tr>
<th>Current Endeavour Energy Submission</th>
<th>AER Draft Determination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bushfire (all persons)</td>
<td>0.06 (1 in 15 years)</td>
</tr>
<tr>
<td>ii</td>
<td>Electrocution (all persons)</td>
</tr>
<tr>
<td>iii</td>
<td>Falling objects (all persons)</td>
</tr>
<tr>
<td>iv</td>
<td>Collision with poles (colliding party)</td>
</tr>
<tr>
<td>v</td>
<td>Loss of supply (life support customers)</td>
</tr>
</tbody>
</table>

0.7  1.5
Essentially this preliminary understanding of the threat barrier analysis suggests that by the time of the 6\textsuperscript{th} year of the inspection cycle the fatality rate will double, excluding catastrophic fire possibilities.

Note that this table is a preliminary characterisation to gauge the quantum of safety change expected if the draft AER determination is applied to Endeavour Energy. If the safety culture does not recover from the initial staff reductions required by the determination then these numbers could be much worse as the effectiveness of the precautionary barriers would remain less than what they are now.

5.4.2 CAPEX

Endeavour Energy has provided the Portfolio Investment Plan (PIP), a prioritised spreadsheet of planned works and tasks for Capex for the 5 year determination period\textsuperscript{37}. It is understood that the PIP prioritises expenditure resources relative to risk. The AER draft determination would require the removal of a number of prioritised tasks and activities associated with the prevention / and or reduction of asset failure modes with adverse safety consequences.

The spreadsheet is ranked by risk in priority categories: safety, reliability, security, compliance and other. By drawing a line at the AER draft determination spend levels in this spreadsheet, an initial understanding of projects which may be impacted or not done at all can be determined. It is worth noting that for the vast majority of the projects to that line, the primary priority is safety, but that nevertheless, many safety projects are cut off. It is these projects that are the focus of this part of the review.

Examining Endeavour Energy’s projects indicates that they are mostly Repex (meaning replacement of life expired or obsolete equipment) often to do with ensuring security of supply to customers on life support equipment. It also includes RTA blackspot pole relocations, substation fencing upgrades and the like. This means the issues considered appear independent of the Opex network asset inspection implications noted in the section above.

Endeavour Energy’s Capex submission is understood to be based on the field assessments by experienced staff, meaning assets will most likely functionally fail if not replaced within the appropriate time frame. That is, the elimination of these programs will independently increase the hazardous event frequencies described above.

\textsuperscript{37} PIP_project_list_20141209_v4.0 safety.xlsx. Mr Gary Winsor, Manager Network Performance, Network Strategy, Networks NSW.
6. CONCLUSION

Endeavour Energy as a PCBU (person conducting a business or undertaking) has a duty under the provisions of the Work Health and Safety Act 2011 to ensure that, for all foreseeable hazards associated with the operation of the Endeavour Energy network, all practicable precautions are in place, so far as is reasonably practicable (SFAIRP).

To meet this duty, Endeavour Energy has implemented a recognised good practice bottom-up FMECA/RCM (failure mode effects and criticality analysis/reliability centered maintenance) process which optimises lifecycle costs of plant and equipment including safety performance. This methodology underpinned Endeavour Energy’s submission to the Australian Energy Regulator (AER) particularly for network operating expenditure requirements. The process is conceptually shown in the threat-barrier diagram below.

Effectively, what Endeavour Energy has done is to apply the hierarchy of controls, as required by the legislation, which means going from the left to the right as shown in the diagram above. That is, foreseeable hazards should be eliminated if reasonably practicable, and if this is not possible, reduced so far as is reasonably practicable. Legally, precautions act before the hazardous event, whilst mitigations act after it.

The AER’s draft determination proposes a 39% reduction in Capex and a 23% Opex over the 5 year determination period. This would require an abrupt decrease of around 700 employees (out of 2,533) and a substantial decrease in equipment inspection frequencies (typically from 4.5 to 6 years). This will affect Endeavour Energy's safety performance.
Interestingly, the AER appears to accept that there will be an increase in unexpected events resulting from this draft determination³⁸:

Where an unexpected event leads to an overspend of the capex amount approved in this determination as part of total revenue, a service provider will be only required to bear 30% of this cost if the expenditure is found to be prudent and efficient. For these reasons, in the event that the approved total revenue underestimates the total capex required, we do not consider that this should lead to undue safety or reliability issues.

The implication is that if incidents occur, spending money beyond the approved Capex amount to address or rectify the issues will be acceptable to the AER. This is directly contrary to my understanding of the purpose of the WHS Act since it suggests Endeavour Energy should be reactive rather than proactive with regards to the management of hazards.

If Endeavour Energy were to operate within the constraints of the draft determination, then in the short term, the number of safety incidents, especially to employees, is expected to spike due to the change in safety culture associated with this scale of staff loss.

In the longer term, this analysis indicates that for the foreseeable threats to members of the public considered in this review, a doubling in fatalities from network hazards would most likely occur. In addition, the likelihood of the Endeavour Energy network starting a catastrophic bushfire (meaning 100 fatalities and 1,000 houses lost) is increased by around 60%. This assumes that existing precautions (especially vegetation clearance and asset condition inspection effectiveness) remain unchanged by the proposed revenue reductions.

The AER draft determination as it stands, is in effect, directing Endeavour Energy to disregard Endeavour Energy’s own determination of what Endeavour Energy believes is necessary to demonstrate SFAIRP under the provisions of the Work Health and Safety Act 2011.

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7. REFERENCES


Fitzsimmons, Shane. Commissioner of the NSW Rural Fire Service. 5 December 2014 in a letter to Mr Vince Graham.


Mullins, Greg. Commissioner, NSW Fire and Rescue, 4 December 2014 in a letter to Mr Vince Graham

Networks NSW Presentation to AER Pre-determination Conference. 8 December 2014. Mr Vince Graham, CEO.

Powerline Bushfire Safety Taskforce. Final Report. 30 September 2011


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