

# PRIVATISATION OF ELECTRICITY TRANSMISSION ASSETS AND THE INCREASED RISK OF BUSHFIRE

## A VICTORIAN CASE STUDY



## INTRODUCTION

With the threat of bushfire increasing in WA, we can't afford to take risks with the maintenance of our electricity network.

Electricity poles and wires pose an inherent risk to communities living in bushfire prone areas, and must be properly managed to mitigate their potential role in causing bushfires.

While we will never be able to completely remove the threat of bushfire, and unexpected things will always go wrong, the last thing we should be doing is knowingly increasing the risk of catastrophic fires.

This is what Colin Barnett is doing with his planned privatisation of Western Power – knowingly increasing the risk of bushfire in WA.

If control of our publicly owned poles and wires is transferred to the private sector, investment in the network will only happen when it is profitable for the private owners (or lease holders) to do so.

This could result in many parts of the network being left to decay, with disastrous consequences during bushfire season.

Privatisation of transmission and distribution businesses, or the 'poles and wires', in other Australian states has led to chronic under investment and low staffing levels that has resulted in unsafe and unreliable networks.

The clearest example of this is in Victoria, and the role that privatised networks played in the tragic 'Black Saturday' Bushfires in 2009.

## BLACK SATURDAY BUSHFIRES

The Victorian electricity distribution network was a system that was maintained by the State Electricity Commission prior to privatisation. It was then converted to a segmented, privatised industry with no dedicated form of maintenance and unreliable supply issues.

The frailty of the privately owned system was tragically highlighted with the Victorian bushfires on 7 February 2009, which claimed 173 lives and destroyed thousands of homes.

The Bushfire Royal Commission found that *"...five of the 11 major fires that began that day were cause by failed electricity assets; among the fires was that at Kilmore East, as a result of which 119 people died."*<sup>1</sup>.

This finding was supported by the findings of a Victorian Coronial investigation into the Marysville bushfire, which were released in December 2015<sup>2</sup>, and concluded that multiple deficiencies in privatised power assets were the cause of several of the devastating bushfires on Black Saturday in 2009.

Further, that the assets in question were not constructed to the industry guidelines at the time, and that the risk of fallen electricity assets was foreseeable and should have been prevented by following proper procedures.

The Royal Commission made a number of recommendations calling for the urgent replacement of the ageing electricity distribution network and changes to the regularity of inspections and maintenance.

In response to Royal Commission's call for an urgent upgrade of the network, power companies argued against the recommendation, telling the inquiry such proposals would cost billions of dollars and likely increase power bills by 20 per cent every year for 20 years.<sup>3</sup>

The Royal Commission made it clear that the protection of human life and the safety of communities was the highest priority for bushfire policy when it made the following statement:

*"The distribution businesses and the State of Victoria submitted there is a large financial cost associated with any recommendation to replace Victoria's ageing electricity distribution network with technology that delivers a reduced bushfire risk.*

*In the Commission's view, the cost of not renewing the network could be far greater. The costs of major bushfires fall on the entire community, and the Kilmore East fire alone demonstrates, in terms of loss of both life and assets, the potential magnitude of those costs."*

## **INCENTIVISED TO FAIL**

Victorian electricity distribution businesses are subject to an incentive-based regulatory regime whereby an economic regulator sets the total amount of revenue each distribution business may receive in a specified period.

Under the regime, the economic regulator makes a revenue determination on the basis of submissions the distribution businesses make in relation to their forecast capital and operating expenditure. If the distribution businesses deliver their services at a cost that is lower than the revenue cap set by the regulator, they are rewarded with an increased return.

This clearly gives them an incentive to cut costs and make savings in areas such as maintenance and repairs.

WA Treasurer Mike Nahan has used Victoria as an example of where electricity transmission costs have been kept low through privatisation. When the underinvestment in the network that has occurred in Victoria since privatisation is considered, it is not hard to see how costs have been kept down. However, when the

tragic consequences of this underinvestment are also considered, it is clear that the cost to the community has been immense.

## **THE COMMUNITY ALWAYS PAYS**

Government can privatise the ownership of essential community infrastructure such as electricity generation and distribution assets but it will never be able to privatise the risk or responsibility for consequences such as poor private sector maintenance, investment or safety practices and it ends up costing consumers in the long term.

Victims of the Black Saturday bushfires sought compensation through the courts, with a number of class actions being taken against the private companies responsible.<sup>4</sup>

A class action on behalf of the victims of Kilmore East - Kinglake bushfire, against SP AusNet and four other defendants, was settled in July 2014 after the plaintiffs and the defendants reached an agreement for a record settlement of more than \$494 million dollars.

In 2015, victims of the Murrindini/Marysville bushfire, who had launched a class action against SP Ausnet and Utility Service Providers, also received compensation of almost \$300 million through an out of court settlement.

Remarkably, the electricity companies were given permission to pass the cost of these settlements on to the community through higher prices, when a decision by the Australian Energy Regulator allowed the private companies to increase their prices in order to pay for any damage not covered by their insurance.

## **CONCLUSION**

This tragic case study highlights the very real dangers of electricity privatisation to the community. It has special relevance to communities in Perth's hills and the south west of Western Australia, which are at ever-increasing risk of bushfire, as a result of our drying climate.

Once electricity networks are placed in the hands of private companies, either by sale or through long term lease, the only thing that guides decision-making around maintenance and investment in new infrastructure is profit. Public safety becomes less of a priority.

Colin Barnett needs to learn from the failures of privatisation around Australia and leave WA's electricity system in public ownership.

## **MORE INFORMATION**

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