

10 February 2017

Secretary of the Committee
Select Committee on the State-Wide Electricity Blackout and Subsequent Power Outages
Parliament House
ADELAIDE SA 5000



Business SA
Chamber of Commerce
and Industry South Australia

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Working for your business.
Working for South Australia

Dear Ms Guy

I write in response to your request for submissions. Following the blackout, Business SA surveyed members to better understand the impacts on the business community and to ensure our advocacy on this matter was adequately informed. We provide as **Attachment A**, a stand-alone report on the business impacts of the blackout which forms the foundation of this submission.

Executive Summary

- Business SA's survey of members following the blackout estimated the cost to South Australian business at \$367 million noting only 37% of businesses had business interruption insurance and of those, 54% were not covered for any costs associated with the blackout and only 12% fully covered.
- Not only did the state-wide blackout impose a significant direct cost on the South Australian economy, it was the catalyst for a material shift in perception about the reliability of electricity supply in South Australia which is enough to shift the future investment intentions of both existing businesses and future investors.
- Business SA has long advocated for restraint in electricity network spending to ensure the costs passed back to consumers are commensurate with their willingness to pay. Accordingly, we recommend that network businesses only be incentivised to spend more money securing the network if the measurable benefit to consumers at least matches the costs.
- One of the key learnings from the State-wide blackout was our vulnerability to lost telecommunication towers and the impact that has on both business and the broader community, an increasing concern in a modern economy which is increasingly moving on-line
- Business SA is a strong supporter of regional business, including through our affiliated regional Chambers of Commerce, and we acknowledge the impacts of the State-wide blackout were disproportionately felt in the regions which must not be forgotten as Governments work towards avoiding such events in future.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry & Government Engagement





Key Policy Points

1. Business SA is a member of ElectraNet's Consumer Advisory Panel and we also talk to a wide range of businesses and other energy experts about issues related to the security of South Australia's electricity network. We have not received any credible advice to date that the strength of ElectraNet's transmission towers fell short of existing standards nor that it would be prudent to spend an inordinate amount of money to reinforce or replace existing towers based on a very low probability that tornado strength winds will strike some part of the network in future. We would prefer the Government and Parliament's focus to be on measures to ensure such a future event does not cause a cascading effect across the network and that adequate redundancy is built in at appropriate exit points.
2. The way current reliability standards work is to exclude the impact of major weather events, or subject them to alternative forms of assessment. Whether or not the Government or Parliament determines more should be done to mitigate against the impacts of another weather event which might cause similar damage to the electricity transmission network, at the very least there needs to be an appropriate understanding about the level of reliability consumers expect and are willing to pay for, even in the case of extreme weather events.

The average business would not accept that the fact they were without power during South Australia's state-wide blackout, in some cases over several days, is not counted in any official measures of the level of reliability which consumers should expect. This is particularly relevant when there is an increasing level of communication from Government authorities both warning of the impacts of climate change and highlighting the increased frequency of extreme weather events we are already starting to experience.

3. Business SA is quite concerned that there seems to be a notion within the State Government that businesses concerns about electricity reliability can be mitigated with back-up generators and that businesses should be taking measures to offset the likelihood of power outages as a function of good practice business continuity planning.

While Business SA accepts that in some very unique circumstances, it may be prudent and cost-effective for a particular business to have some level of back-up generator support, not necessarily to support a normal function but some critical function or piece of equipment, you cannot compare the vast majority of businesses to say hospitals, which require electricity as a matter of life and death. For businesses in the main, back-up generation is not cost-effective for the rare circumstances it would need to be employed, nor should it be considered necessary in a State within a first world country which has for many years experienced adequate reliability. From our blackout survey, only 12% of businesses had a back-up generator and in many cases, this is only for absolute business critical or safety critical reasons, not just to maintain usual operations.

4. Since the state-wide blackout, South Australia has experienced two load shedding events, December 1, 2016 and February 9, 2017; in addition to significant extended outages as a result of major storms between Christmas and the New Year and to a lesser extent, further extended outages following another strong storm event in January 2017. The sheer volume of outages within such a short time period is deeply concerning for the business community and demonstrates that we are far from having an acceptable level of reliability.
5. Through Business SA's interactions with the State and Federal Governments and national governing authorities in the electricity market, it has become clear that we need much more defined lines of responsibility with respect to issues of electricity reliability and security, and clear mechanisms for how potential issues are raised up through State and Federal Governments to ensure that, at a minimum, we avoid issues of reliability where the market does not provide adequate supply as occurred on 8 February 2017, impacting over 90,000 customers.



Blackout Survey Results

Understanding the effects of
South Australia's State-wide
blackout on Wednesday
28 September 2016.



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South Australia's State-wide blackout analysis



Total cost of blackout on South Australian businesses

\$367 MILLION¹

Following South Australia's State-wide blackout on Wednesday 28 September 2016, Business SA surveyed its membership, and the broader membership of South Australia's regional Chambers of Commerce, to validate the associated cost impacts for the productive economy².

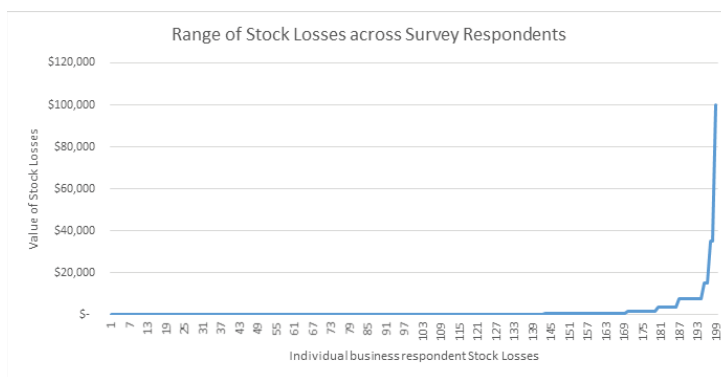
As South Australia's recognised peak business membership organisation, Business SA is endeavouring to ensure that the debate on how to improve South Australia's network security is adequately informed about what a system failure actually costs.

Businesses were asked a broad range of questions about various cost impacts, from lost production and wages to running a generator, as well as in relation to their insurance coverage. There was also an opportunity for business to provide broader feedback on how the system failure impacted their businesses, including with respect to lost mobile phone and internet coverage.

Our summary of survey findings focuses on the total South Australian business impacts as extrapolated from our survey sample³ and further analysis of key economic sectors including manufacturing and retail. Furthermore, in consideration of the multiple day outage in Port Lincoln, we have provided separate analysis to specifically articulate the cost impacts on Eyre Peninsula businesses.

At Business SA, we are passionate about raising the profile of regional business issues as it is crucial that all stakeholders in the electricity supply chain from generators and networks to State and Federal Governments recognise the importance of reliability across the entire State, not just Adelaide.

While Business SA has presented both 'median' and 'average' results for each question, the median results are more statistically reflective of the broader impacts of the blackout on South Australian business. For any reported result, the 'median' refers to the mid-point of responses while the 'average' is the total of all responses divided by the number of responses. To demonstrate with a graph below, while the majority of business respondents did not suffer a stock loss and the median loss was zero, there were still businesses which suffered stock losses giving a respondent average of \$1,589 however we cannot say that on average businesses suffered this loss as the median result was zero:



¹ Includes estimated \$115 million impact on major South Australian businesses including Arrium, Nyrstar, Oz Minerals and BHP. Furthermore, Business SA has only extrapolated losses to the population size where the median was greater than zero to ensure we do not overestimate the costs of the blackout.

² The survey was conducted from the 9 to 25 of October 2016. The survey also asked about costs related to the associated floods to ensure we were adequately delineating between the two events. We have not discounted costs related to floods given they comprised less than 10% of total advised costs and we have only extrapolated the survey findings to employing businesses, not sole traders, given only one sole trader responded to our survey.

³ Note while there were 260 respondents, only 207 gave responses to the substantive questions. Those 207 respondents provided a statistically significant sample size to enable us to extrapolate our findings to the population of 50,300 employing businesses in South Australia.

Key Findings across all South Australian businesses



a) Median trading/production losses –

\$3,500

Average trading/production losses – \$12,441



b) Median wages paid when business non-operational –

\$1,500

Average wages paid when business non-operational – \$3,355



c) Median property losses/damage – **\$0**

While the relative number of businesses who suffered property losses/damage was low, the average property loss/damage was \$10,425



d) Median stock losses – **\$0**

While the relative number of businesses who suffered stock losses was low, the average stock loss was \$1,589



e) Median costs of re-commencing operations – **\$0**

While the relative number of businesses who incurred costs restarting operations was low, the average cost to re-commence operations was \$763



f) Median generator costs – **\$0**

Given only 12% of businesses had a back-up generator, the relative number of businesses who incurred generator costs was low, but the average cost was \$649

Key Findings across Manufacturing Sector

g) Median property losses/damage – \$1,500

Average property losses/damage – \$8,505

h) Median trading /production losses – \$7,500

Average trading/production losses – \$15,369

i) Median wages paid when business non-operational – \$1,500

Average wages paid when business non-operational – \$3,916

j) Median stock losses – \$0

While the relative number of businesses who suffered stock losses was low, **the average stock loss was \$5,484**

k) Median costs of re-commencing operations – \$0

While the relative number of businesses who incurred costs restarting operations was low, **the average cost to re-commence operations was \$1,394**

l) Median generator cost – \$0

Average generator costs – \$2,031

Key Findings across Retail Sector

m) Median property losses/damage – \$625

Average property losses/damage – \$2,812

n) Median trading /production losses – \$1,500

Average trading/production losses – \$4,513

o) Median wages paid when business non-operational – \$625

Average wages paid when business non-operational – \$979

p) Median stock losses – \$0

While the relative number of businesses who suffered stock losses was low, **the average stock loss was \$450**

q) Median costs of re-commencing operations – \$0

While the relative number of businesses who incurred costs restarting operations was low, **the average cost to re-commence operations was \$284**

r) Median generator cost – \$0

Average generator costs – \$113

Key Findings across all Eyre Peninsula businesses



Total cost of the blackout to the Eyre Peninsula (predominantly regional city of Pt Lincoln)

\$8.33 MILLION⁴

While Port Lincoln's back-up generators initially responded to restore electricity supply at 6.45pm on Wednesday the 28 of September, only three hours after the State-wide blackout, five and a half hours later the backup generators failed and Port

Lincoln's electricity supply was not fully restored until 2 days later at 8.25pm on Friday 30 of September. Given the extended outage in Port Lincoln, Business SA has specifically analysed the impacts of the blackout on the Eyre Peninsula.⁵



s) **Median property losses/damage – \$313**

Average property losses/damage – \$5,157



t) **Median stock losses – \$313**

Average stock loss was \$1,187



u) **Median trading/production losses – \$7,500**

Average trading/production losses – \$22,284



v) **Median wages paid when business non-operational – \$1,500**

Average wages paid when business non-operational – \$4,631

w) **Median costs of re-commencing operations – \$0**

While the relative number of businesses who incurred costs restarting operations was low, the average cost to re-commence operations was \$1,169

x) **Median generator costs – \$0**

Average generator costs – \$944

⁴The 42 respondents from the Eyre Peninsula provides a statistically significant sample size to enable us to extrapolate our findings to the population of 618 employing businesses in Port Lincoln and 247 employing businesses on the Eyre Peninsula excluding Port Lincoln (to calculate 247 employing businesses outside Port Lincoln, we have estimated 80% of the 1239 employing businesses on the Eyre Peninsula outside Port Lincoln are farms. This ratio accords with the relative breakdown of Business SA's own membership on the Eyre Peninsula).

⁵AEMO, 'Update Report – Black System Event in South Australia on 28 September 2016', 19 October 2016.

Key Findings in relation to insurance coverage of businesses



Only **37%**
of businesses have business interruption insurance

Of those businesses,



54%

were not covered for any costs associated with the blackout and only 12% of covered businesses were fully covered for costs associated with the blackout

Other Key Findings of blackout survey



Only **12%**
of businesses had a back-up generator



83%

of businesses had to cease operations as a result of the blackout

Telecommunications/internet impacts on business:

While the majority of the State's power was back up and running the same night, one of the most concerning impacts of the blackout, particularly for businesses on the Eyre Peninsula, was the lack of telecommunications and internet access. For some businesses in fact, this was considered more problematic than the power loss alone. There was even a suggestion to enable impacted businesses to be able to access free messaging through radio stations, including the ABC, if they are otherwise unable to reach customers or employees.

"The biggest issue for us was loss of all mobile and landline communications. Incredibly worrying not being able to contact emergency services."

– Eyre Peninsula agribusiness

"The black out was one thing, the bigger issue for my business was the disruption to telecommunications which is never mentioned. People and businesses can have a back-up generator and get by (if they choose to do so) however, we have no control over the telecommunications system. I'd rather endure a week without power than half a day with no mobile or landlines/internet. Not being able to respond to emails and phone calls caused several guests to not show up for charters..."

– Eyre Peninsula tourism operator

Feedback from business regarding network operators:

While the feedback from businesses regarding network operator response varied depending on region, there was general acceptance that a storm can bring down the network to some extent. However when businesses are literally hundreds of kilometres away from such a weather event, the acceptance of such an occurrence quickly diminishes.

For many businesses who were back up and running in a few hours, they were much more tolerant of the blackout and generally pleased to have power returned when they did. However, many other businesses in regional areas such as the Eyre Peninsula were not so forgiving and were particularly critical of the communications received and the uncertainty regarding when the power was likely to be restored.

"As a food business we were worried at the length of time the power was going to be off for. Such an amazing job in getting power restored to SA...Well Done!!!"

– Riverland hospitality business

"The blackout itself was acceptable, the time it took for power to be turned back on was not."

– Adelaide manufacturing business

"It was inconvenient but luckily we weren't drastically affected. We were grateful power was restored so quickly as loss of refrigerated goods would have become a significant cost (& inconvenience) had the power stayed off much longer"

– South East veterinary business

"Disgraceful that an event 600kms brought down the entire state. We lost a complete production shift plus associated IT problems after resumption of power. The involved parties should admit responsibility for the blackout rather than play political games. Including assurance it won't happen again."

– South East manufacturing business

Policy concerns from business:

While Business SA's advocacy prior to and following the blackout has been squarely focused on ensuring we have reliable and competitively priced power in future, businesses did raise a number of concerns from the blackout about Government energy policy. While there were views for and against renewables in relation to the cause of the blackout, even pro-renewable voices were not tolerant about a lower level of reliability with higher renewable energy penetration. There was also a realisation that even with a higher penetration of renewables in South Australia, that we are still reliant on coal fired power from Victoria.

"Extremely angry that state Govt are blaming everything on the storm instead of admitting they should have spent less money & focus on chasing "green" energy instead of making sure we had guarantee of supply."

– Mid-North property and business services company

"The government needs to make it a very high priority to secure electricity for the state and also to secure competitive prices for SA. This incident reflects very poorly on Jay Weatherill as does the very high prices we are currently paying. Take some action now."

– Adelaide Hills retailer

"Please ask Jay why the peak and off peak spot kwh rates for large businesses (using more than 160MWh per year) are more than double any other state in Australia?"

– Adelaide manufacturing business

"Although the Blackout was a result of an extreme weather event it should serve as a trigger to ensure that this cannot happen again and fail safe systems should be investigated and implemented as a matter of high priority. It is not a time for political gamesmanship - the public of SA deserve better than that. The public have responded with generosity and maturity to the challenges that were presented - politicians should do the same."

– Adelaide accountancy business

"SA now suffers from actual (or perceived) disadvantage in two areas - lack of power security and the highest cost of power in Australia. All of this has been achieved for the sake of renewable energy growth which is underpinned by dirty brown coal power via the Victorian interconnector. SA Great??"

– Adelaide law firm

Insurance observations for business:

What the survey uncovered was that generally businesses' losses associated with the blackout were not covered, or at least fully covered, by insurance, even where businesses had business interruption insurance. While for the most part, that related to the time businesses actually lost power, it did underscore the fact that businesses rely on a secure electricity network as a foundation for doing business in a first world country like Australia. Insurance and generators come at a cost but businesses are now looking at, and some already spending more on, such mitigation measures to ensure they can withstand future events. However, from a policy perspective, Business SA recognises this is money not being spent in the productive part of South Australia's economy. Notwithstanding, any future spending on preventing a future blackout needs to be kept in perspective in so far as how it relates to the costs of a blackout.

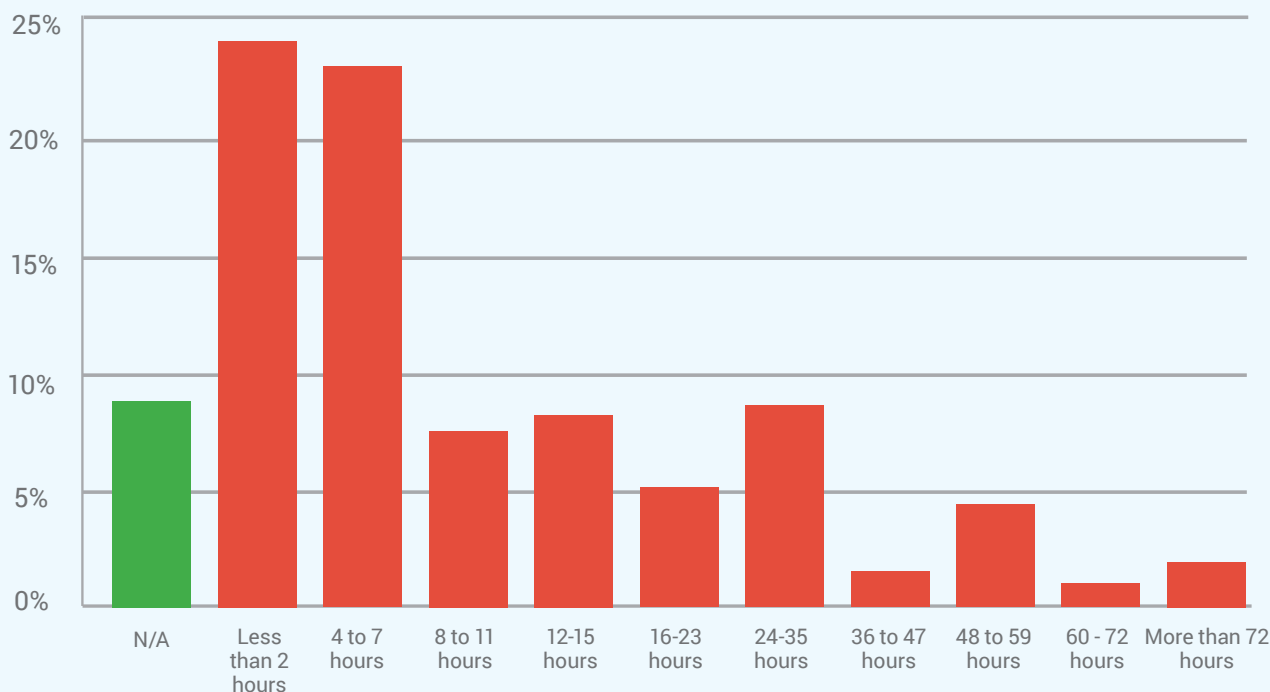
"Our business interruption insurance for electrical problems only applies for power outages greater than 48 hours...we had already lost stock after 12 hours."

– Adelaide Hills manufacturing business

"This is why insurance exists - to account for the rare occurrence. I don't want to see hundreds of millions of dollars put towards a once-in-20 year occurrence. Far more important things to invest in that will actually help drive the state forward."

– Adelaide based IT business

How long businesses were unable to operate as a result of the blackout:



Blackout Survey Results

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