



COMMISSIONER FOR
BETTER REGULATION

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5 August 2016

Mr Mark Feather
Executive Director
Energy, Policy and Programs Branch
Department of Environment, Land, Water and Planning
Level 18, 1Spring Street
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Dear Mr Feather

REGULATORY IMPACT STATEMENT FOR THE F-FACTOR INCENTIVE SCHEME

I would like to thank the staff of the Powerline Bushfire Safety Program in the Department of Environment, Land, Water and Planning for working with my team on the preparation of the Regulatory Impact Statement (RIS) for the *f-factor Scheme Order-in-Council*.

As you know, the Commissioner for Better Regulation is required to provide independent advice on the adequacy of analysis presented in Regulatory Impact Statements in Victoria, under section 12 of the *Subordinate Legislation Act 1994*. It is important to emphasise that this role is not to provide a view on the merits of any policy or regulatory change, but to advise on the adequacy or otherwise of a RIS. To be adequate, a RIS must be logical, draw on relevant evidence, be transparent about any assumptions made and be proportionate to the proposal's expected effects. It also needs to provide a suitable basis for public consultation.

I am pleased to advise you that the final version of the RIS received by us on 5 August 2016 meets the adequacy requirements of the Act.

The f-factor incentive scheme was introduced as part of the Government's response to the 2009 Victorian Bushfires Royal Commission and is designed to provide an incentive for Victorian electricity distribution businesses to better manage the risk of bushfires as a result of electricity distribution network infrastructure.

Under the existing f-factor scheme, an annual benchmark is set for each distribution business for bushfire starts on the network. The benchmark is based on the average number of fire starts on the distribution network in the previous five years. Distribution businesses are then rewarded or penalised for every network ignition above or below their historical five-year benchmark of ignitions.

In this way, the existing f-factor incentive scheme has two major components – an incentive rate and a fire start benchmark.

The revised f-factor proposed in this RIS makes changes to both of these components and introduces a third component – the Ignition Risk Unit (IRU).

The IRU is a metric that has been designed to weight fire starts by the risk the fire start represents to the community. The IRU is determined by the location and timing of a fire start. It is calculated as the product of the geography of the fire start and the CFA Fire Danger Rating at the time of the start.

Under the existing scheme, all fire starts at all times incur the same penalty, regardless of the risk that the fire represents to the community.

Under the proposed scheme, the incentive rate will be multiplied by the IRU. In this way, the penalty that a bushfire attracts will better reflect the potential harm that the fire poses to the community. This in turn is intended to encourage distribution businesses to reallocate resources towards better managing the risk of fires starting on the distribution network in high risk areas, on high risk days.

The Department estimates that, once multiplied by the IRU, the overall cost effect on consumers and distribution businesses under the proposed scheme will be largely the same as it is under the existing scheme.

In providing this advice, we note that the f-factor incentive scheme is only one mechanism in a far broader suite of mechanisms for managing powerline bushfire safety. As explained in the RIS:

“The f-factor incentive scheme is not intended to be the primary instrument by which the state delivers network bushfire safety improvement. Rather, it provides businesses with an incentive to optimise safety outcomes from existing resources.”

Through improving specific aspects of the f-factor incentive scheme, the Department expects that the scheme will be more effective in encouraging distribution businesses to realise the full benefits of mandated and pre-existing safety equipment on the electricity network.

Further, we note that the benefits of the proposal are heavily dependent on eliciting behaviour change from distribution businesses. The Department has outlined a detailed evaluation plan in the RIS that will enable a fuller understanding of the effectiveness of the scheme.

Should you wish to discuss any subsequent changes to the proposed regulations with us, please do not hesitate to contact me on (03) 9092 5800.

Yours sincerely



Anna Cronin
Commissioner for Better Regulation