

6 June 2017

Mr Richard Owens
Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235

Email: richard.owens@aemc.gov.au

Dear Mr Owens

Re: Replacement expenditure planning arrangements draft rule determination - ERC0209

CitiPower and Powercor Australia (the business) welcome the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft rule determination on the replacement expenditure planning arrangements.

Our submission examines the potential effect of the draft rule on our business and proposes a more streamlined approach to asset retirement reporting and the Regulatory Investment Test for Distribution (RIT-D) process. In particular, we demonstrate the following:

- proposed reporting of all asset retirements should be rationalised, to exclude onerous reporting of projects that inherently require like-for-like replacement, while capturing larger projects with potential for alternative non-network solutions. This can be achieved by:
 - introducing a cost threshold of \$250,000 for reporting asset retirements, including for individual projects and projects that are part of a larger replacement program; and
 - reviewing the threshold periodically and indexing it to the consumer price index (CPI);
- replacement projects that are driven by safety obligations should be exempt from the RIT-D, to reduce the risk of delays to necessary works to maintain the safety of our network; and
- the RIT-D should not apply to projects committed before 1 July 2018, to allow distributors sufficient time to plan for the time and resource required to complete the RIT-D.

Should you have any queries regarding this submission please do not hesitate to contact Sonja Lekovic on (03) 9683 4784, or slekovic@powercor.com.au.

Yours sincerely,



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Additional reporting requirements in the DAPR

There are no clear benefits to consumers from the proposed reporting of asset retirements, however the additional reporting will have a significant impact on our business practices and impose additional costs. The draft requirements are broad and include sizeable reporting of all asset retirements. We believe that the reporting requirements can be rationalised to provide targeted information on asset retirement projects that are more likely to be of interest to energy stakeholders, while reducing the cost of reporting to the business, and ultimately to consumers.

Impact on the business

The draft rule proposes that the Distribution Annual Planning Report (**DAPR**) should be expanded to include information on:

- all planned asset retirements over a forecast five-year period. Where assets are replaced under replacement programs, assets that are valued at less than \$100,000 can be grouped together; and
- planned asset de-ratings that are likely to result in a constraint over the same period.

Should the draft rule be passed, this would result in a significant increase in reporting in the DAPR and would require an information technology (**IT**) system upgrade. In 2016, we replaced more than 11,600 assets and 230 kilometres of cable and service lines. A large share of these replacement projects were undertaken following identification of defects during routine inspections.

For most asset replacement projects, our business plans do not postulate in advance the type of information required to be provided in the DAPR under the draft rule (e.g. date or location of asset replacement). Rather, we budget for an estimated number of asset replacements based on historical performance, with the location and date determined upon inspection.

In order to provide the required forecast information for individual asset retirements under the draft rule, our business would have to employ additional resources and incur the following costs:

- one-off cost of additional IT systems to harmonise our business plans to the information format required by the rule (estimated at more than \$1 million based on similar systems); and
- ongoing annual cost of compiling and verifying the information (estimated at more than \$100,000 per year).

The cost of these additional reporting requirements is greater than the incremental benefit to consumers.

Some of this information will already be captured in the system limitation template that will be introduced in the 2017 DAPR. The template is currently being developed by the Australian Energy Regulator (**AER**) in consultation with distributors and non-network providers. The system limitations report will capture all available information on network constraints and present them in a format most useful for non-network service providers. It is unlikely that additional reporting of asset retirements not captured in the system limitations report will add value to non-network providers, particularly reporting on grouped assets.

Proposed threshold

Should the Australian Energy Market Commission (**AEMC**) support the additional reporting requirements, we propose introducing a cost threshold for reporting of planned individual asset retirements:

- individual asset retirement reporting, including assets replaced individually and as part of a program, should have a cost threshold of \$250,000; and
- the cost threshold be reviewed periodically and indexed to the consumer price index (**CPI**).

According to our preliminary estimates, introducing the cost threshold for individual reporting of asset retirements at \$250,000 would remove the need to report on asset replacement projects that provide no opportunities for alternative solutions, while capturing larger replacement projects, such as zone substation transformer replacements and/or refurbishments. It would also significantly reduce the level and cost of additional reporting.

Without the threshold, we would be obliged to report on thousands of assets that cannot be replaced by non-network service providers due to their unique role in the network. Most asset replacements are components of a larger asset, such as a circuit breaker on a switchboard. The following are examples of asset that we would be required to report on without the threshold of \$250,000 (with estimated cost ranging from \$100,000 to \$240,000):

- kiosk substation replacement;
- cooling system pump, motor, fan replacement;
- roadway pit refurbishment;
- 11 kilovolt (kV) circuit breaker replacement (part of a switchboard with other circuit breakers); or
- 66kV cable screen bonding link box, etc.

We were unable to find an example of an asset replacement project valued at less than \$250,000 with an alternative non-network solution.

RIT-D for replacement expenditure

We support the AEMC's decision to align the requirements and the specifications of the Regulatory Investment Test for Distribution (**RIT-D**) for augmentation and replacement expenditure. However, we believe that projects driven by safety-related obligations and regulations should be excluded from the RIT-D requirement in the National Electricity Rules (**NER**), discussed below.

We also provide below an example of a safety-driven scheme where a RIT-D would not provide any benefit to stakeholders. Further, the example highlights why the RIT-D should not apply to projects committed before 1 July 2018.

Exceptions from the RIT-D

We believe that projects driven by safety-related obligations and regulations should explicitly be exempt from the RIT-D in clause 5.17.3(a) of the NER. The costs arising from the significant delay to commencing safety driven programs while the RIT-D process is carried out must be weighed against the benefit (if any) to consumers from potentially finding an alternative, more cost effective option to address the network issue.

Energy Safe Victoria (**ESV**) has responsibility for enforcing safety-related legislation, regulations, directions, the Electricity Safety Management Scheme (**ESMS**) and relevant Australian Standards. Obligations placed on our business by ESV under legislation may result in us amending our ESMS or the related Bushfire Mitigation Strategy Plan (**BMP**). Many of the safety related obligations are driven by recommendations of the Victorian Bushfires Royal Commission (**VBRC**).

Non-network solutions would rarely be a viable alternative to address a safety-related concern on our network. In the unlikely event that a non-network solution may be technically viable, we are already incentivised to consider that alternative through the incentive framework contained within our distribution determination, such as the Capital Expenditure Sharing Scheme.

Generally, extensive investigation and technical assessments are performed jointly with ESV before we are requested to undertake works in a specified timeframe. Undertaking a RIT-D for these safety-driven projects would delay the commencement of the necessary works, and put at risk the safety of our network. This would be detrimental to all consumers.

Transitional arrangements

Any requirement to conduct a RIT-D for projects that are in advanced stages of planning will cause significant disruptions to their implementation. We support the AEMC's draft decision to apply RIT-Ds to projects that are not committed before 1 July 2018.

Approximately 12 months between the final rule and the commencement of the RIT-D for replacement projects would allow distributors sufficient time to gather internal resources necessary to start planning for the RIT-D for

projects that are not committed before 1 July 2018, as well as adjusting business plans and delivery timetables for the delay caused by the RIT-D.

Implications of project delay in installation of Rapid Earth Fault Current Limiters

The RIT-D for replacement works should not apply to safety-driven projects, and also should not apply to projects committed before 1 July 2018 to allow distributors sufficient time to plan for the time and resource required to complete the RIT-D. One of our safety-driven projects will be significantly impacted if the proposed rule takes effect from the date of the final determination without a transitional period.

By way of background, and in response to one of the recommendations of the VBRC, rapid earth fault current limiters (**REFCLs**) were identified as a technology that can reduce bushfire risk. This is a new protection technology that can detect and turn off power at a fault on 22kV powerlines almost instantaneously.

On 1 May 2016, the Victorian Government passed the Electricity Safety (Bushfire Mitigation) Amendment Regulations 2016 (the Regulations) that require the installation of REFCLs at 22 zone substations in the Powercor network that are listed in schedule two. While REFCL is not stated, the definition of 'required capacity' in the Regulations can only be met through the installation of a REFCL. The Regulations assign a number of 'points' to each of the selected zone substations in which a REFCL must be installed, and we must ensure the following:

- at 1 May 2019, the points set out in schedule two [of the Regulations] in relation to each zone substation upgraded, when totalled, are not less than 30 (tranche 1);
- at 1 May 2021, the points set out in schedule two in relation to each zone substation upgraded, when totalled, are not less than 55 (tranche 2); and
- on and from 1 May 2023, in our supply network, each polyphase electric line originating from every zone substation specified in schedule two has the required capacity (tranche 3).

The Victorian Government undertook extensive consultation with industry and technical experts in developing the legislation, including consultation on a Regulatory Impact Statement, resulting in a specific technical standard that can only be met by Powercor employing a single technology with a single supplier globally.

The installation of REFCLs includes refurbishment and replacement works, with the cost of the works estimated at more than \$10 million at each zone substation. The proposed removal of the replacement and refurbishment exception in the NER means that a RIT-D would now be required for these projects going forward. We have already committed to tranche 1, however, tranches 2 and 3 may be subject to a RIT-D under the draft rule.

As there are no alternatives to the REFCL technology which would allow us to reach the prescribed standards, the RIT-D would purely be an administrative process with no value to stakeholders. The process would be the "fast track" option under the NER. However, given the size of the project and the cost of replacement at each zone substation likely to exceed \$10 million, the "fast track" process would still require:

- publication of a Notice;
- preparation and publication of the Draft with detailed modelling and scenarios;
- consultation on the Draft Project Assessment report; and
- preparation and publication of the Final Project Assessment Reports (**FPAR**).

These processes are estimated to take at least 9 months. The timeframe could be even longer if a party were to dispute the conclusions in the FPAR to the AER, as that process takes another 40 to 100 days.

We cannot afford to divert resources and pause the second tranche of our REFCL program to undertake a RIT-D. We have initiated the projects and scoping works are now underway. Our indicative timeline to deliver the required capacity by the specified date to two of the six zone substations in tranche 2, namely Ballarat South (**BAS**) and Ballarat North (**BAN**), is shown in the table below. A delay of at least 9 months to undertake a RIT-D will result in us missing the Victorian Government deadlines.

Table 1 Indicative program for BAS and BAN

Activity	Start	End
Scoping	Q2 2017	Q4 2017
Detailed design for lines and station	Q1 2018	Q3 2018
Procurement	Q2 2018	Q1 2019
Construction of lines and station	Q2 2019	Q2 2020
Commissioning	Q2 2020	Q3 2020
Deadline for required capacity		30 April 2021

Source: Powercor

Importantly:

- procurement is expected to start in Q2 2018 as long lead times are expected due to the size of the project and from the sole supplier of the REFCL technology;
- construction is expected to begin in Q2 2019 and will take a minimum of 12 months given the long feeders and the expected large number of surge arrestors that will require replacement; and
- we cannot commission projects during the bushfire season, as commissioning presents an elevated risk of asset failure, and therefore it must be commissioned and completed by the end of October 2020.

The requirement to conduct a RIT-D for tranche 2 of the REFCLs installation program would cause us to experience project implementation delays, and may result in us not meeting the strict timeframes set out in the Regulations. Failure to achieve the timeframes would expose us to penalties of up to \$2 million per point that we fail to achieve by the specified date, plus penalties of up to \$5500 for each day that contravention continues after ESV issues a notice of contravention.

Should there be no exemption of safety programs from the RIT-D in the NER, the transitional arrangement should also include exceptions from the RIT-D for tranche 2 of the REFCL installation program.