

18 August 2017

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Dear Chris,

Re: Victorian Government's REFCL mitigation measures – HV customers

AusNet Services considers that a change to the Electricity Distribution Code (the Code) is the fundamental condition required in order for customer hardening to be a viable solution at Tranche 1 HV customer sites. In addition to a change to the Code, two secondary conditions are required:

1. The Government agrees to finalise its policy regarding funding of HV customer asset upgrades before 30 September 2017.
2. The Minister provides an upfront written assurance that AusNet Services will receive extensions to the timeframe for achieving Tranche 1 as required, for sites where customer hardening works are being pursued.

The Minister's letter addresses one of these secondary conditions (although it is not clear whether \$10m will be sufficient to fund all required works), but does not provide any comfort that the fundamental condition will be met.

The measures described do not effectively mitigate the risk associated with REFCL operation and HV customer assets, for the reasons set out below.

Electricity Distribution Code

Without a change to the Code to accommodate REFCL operations, customer hardening works are not a viable option. Under the approach set out by the Minister, AusNet Services would be required to knowingly operate outside of the Code.

A breach of the nominal voltage variation set out in Section 4.2.2 of the Code not only attracts a potential penalty from the ESC but, and far more significantly, exposes AusNet Services to material safety and commercial risks.

Therefore, while the ESC has provided the AER an assurance that we will not be subject to any penalties it can levy under Section 4.2.2 of the code, this does not address the more material liabilities that arise from:

- damage to customers' plant and economic losses to production processes; and

- fire originating from either customer equipment while operating outside code, or from our own network from the secondary fault caused by customer equipment failing from the elevated voltage.

In fact, the ESC cannot provide any assurance over the liability faced if AusNet Services knowingly operated in a manner that did not comply with the Code, and the operation of the REFCL devices caused a fire start, resulting in loss or damage to another parties' assets.

To elaborate, in these circumstances, if AusNet Services' operation of the REFCL devices installed on its network caused a fire start, the parties who may experience loss or damage would fall into two categories:

- a High Voltage (HV) customer, whose site is connected to the AusNet Services electricity distribution network; or
- a party other than an HV customer (a third party), who may or may not be connected to the distribution network, including members of the general public.

These parties may have standing to commence legal action against AusNet Services for any loss or damage allegedly caused by a REFCL-related fire start.

In the absence of a Code change, it is acknowledged that compliance with the current Code can be achieved if HV customers agree to a lower standard of voltage variation limits. However, customers have no incentive to agree to a lower level of service than they are currently provided. As AusNet Services described at the AER's 3 August Board meeting, Jemena's attempt to commission a REFCL at Sydenham has been unsuccessful to date because HV customer negotiations have taken over 2 years, and are yet to be resolved. In addition to funding certainty, Jemena's HV customer has raised concerns around disruption to their business operations during testing, commissioning and operation of the REFCL and exposure to liabilities for plant and equipment failure and associated damages. AusNet Services must consider deliverability timeframes in its solution choice.

High Voltage Customer Assistance Program (HCAP)

AusNet Services' primary concern with the approach outlined in the Minister's letter is that customer hardening works cannot be completed in time to enable AusNet Services to meet the very tight legislated timeframes to deliver the Tranche 1 projects.

As described above, customer hardening works can have extremely long delivery times. These works will have a significant impact on HV customers' business operations. Negotiating access at times that minimise the downtime to these customers can be a significant driver of the lengthy timeframe needed to undertake this process. HV customers have no incentive to agree to Code variations or to facilitate the delivery of these works in a timely manner. Therefore, in AusNet Services' view, it is certain that even longer extensions for REFCL installation will be required than for the isolating transformers option at many customer premises.

We also note that isolating transformers are, in fact, the least cost option for many customer assets. For example, at Puckapunyal, due to the capacitance of the HV customers' network, if customer hardening works are undertaken, a third 66/22kV transformer and REFCL will be required at Seymour. This will cost an additional \$8M, compared to AusNet Services' proposal to install two isolating transformers at this site. Therefore, the most economic solution at Puckapunyal is to install two isolating transformers. Furthermore, there are additional HV

customer sites for which isolating transformers are a more economic option than hardening works.

The Minister's letter still does not provide a firm commitment that extensions will be granted for projects that are delayed due to customer hardening works. The risk that AusNet Services will face the very material penalties set out in the legislation is greatly heightened by the Minister's approach.

For these reasons, the Minister's letter does not provide AusNet Services any material additional comfort as to the risks it faces if it were not to install HV isolating transformers for the Tranche 1 REFCL projects. Therefore, AusNet Services' firm position remains that HV isolating transformers are the only viable option.

Sincerely,



Tom Hallam
GM Regulatory and Network Strategy
AusNet Services