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Ref: MBR040415



Dear Mr Pattas

POWERCOR SERVICES TRANCHE 3 CONTINGENT PROJECT APPLICATION – SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR

I welcome the opportunity to make a submission on behalf of the Victorian Government regarding Powercor's 22 August 2019 contingent project application (CPA) to the Australian Energy Regulator (AER) for its third tranche of works to deploy Rapid Earth Fault Current Limiters (REFCLs).

The Victorian Government remains committed to implementing measures that will reduce the risk of catastrophic bushfires like those that occurred on Black Saturday in 2009. Powerlines were found to have been the cause of 159 of the 173 deaths in that tragic event. Powercor's Tranche 3 CPA proposes critical works associated with implementing the Victorian Bushfires Royal Commission's (VBRC) Recommendations 27 and 32, which are designed to respond to and reduce that risk.

I am pleased that Powercor has completed its first tranche of REFCL works, with deployment of Tranche 2 now commencing. I am also pleased that it is applying lessons learned from its REFCL works to date in its planning and works going forward. I commend Powercor for its dedication to this safety initiative, which appears to be on course to deliver unparalleled improvements in safety standards benefiting all Victorians.

Powercor is requesting total expenditures of \$167 million (all dollar amounts are in \$2015) for its Tranche 3 REFCL works at seven zone substations (ZSSs). I note that this represents a 30 per cent increase in average project expenditure compared to its Tranche 2 works, and a 63 per cent increase in average expenditure across all Tranche 1 and Tranche 2 REFCL works for both AusNet and Powercor.

On behalf of Victorian consumers, I expect the AER will undertake all regulatory, technical and financial due diligence in its interrogation of the claims put forward in Powercor's Tranche 3 CPA to ensure that all improvements to the electricity network, including works that are the subject of CPAs, are provided at a fair and reasonable cost to electricity consumers.

CPAs should not be used as a vehicle to fund the replacement of aged or poor condition assets, the augmentation of networks to address growth in customer load, or to make the network more efficient generally. Such costs should be treated as business as usual (BAU) expenditures and funded accordingly via the appropriate mechanisms.

Specific Comments

Powercor's Tranche 3 CPA and supporting materials have been reviewed closely by the Department of Environment, Land, Water and Planning (DELWP). While the Victorian Government is broadly supportive of Powercor's Tranche 3 CPA, I bring to your attention four concerns with the proposed works and expenditures proposed:

- inclusion of funding for the Corio (CRO) substation;
- large increases in drivers of capital expenditures;
- misattributing capex as REFCL works instead of 'business as usual' expenditures; and
- inclusion of duplicative cost items previously funded.

Issue 1: Inclusion of funding for CRO substation in the CPA

Powercor proposes \$27.34 million in REFCL-related expenditures for its CRO substation. However, it does not appear that the proposed REFCL works for CRO are reasonably certain or necessary. In May 2019, the company proposed transferring all high bushfire risk feeders supplied from its CRO and Geelong (GL) substations to a newly built Bannockburn (BBN) substation. If approved, the BBN proposal would eliminate the need for REFCL works at CRO (and GL) altogether, as well as the need for any High Voltage Customer (HVC) REFCL-related works.

DELWP understands that based on information provided by Powercor in its Tranche 2 and Tranche 3 CPAs, implementing the BBN proposal allows a cost efficiency gain of \$27.14 million as follows:

- \$27.34 million Powercor seeks for CRO in Tranche 3
- \$9.66 million estimated REFCL costs for the ten HVC sites capable of being served by CRO
- \$18.14 million sought for GL in Tranche 2
- less \$28 million cost for implementing BBN in the Tranche 2 options analysis for GL.

Without the BBN option's inclusion in this CPA, the AER cannot ensure that Powercor has considered all options or that the proposed CRO works represent a reasonable and prudent investment. It is also worth noting that the costs of REFCL works for GL, previously approved in Powercor's Tranche 2 CPA, will be obviated by implementing the BBN proposal.

In view of the uncertainty around Powercor's CRO works, those works should be excluded from consideration in Powercor's Tranche 3 CPA and deferred to the company's forthcoming Electricity Distribution Price Review (EDPR) for the 2021-25 regulatory control period. This would allow uncertainties around CRO, GL and BBN to be resolved.

This is also consistent with Powercor's decision to defer REFCL works for its Waurn Ponds (WPD) substation, which may be obviated by a new substation at Torquay, to its 2021-25 EDPR proceeding.

Issue 2: Large increases in drivers of capital expenditures

Many cost elements in Powercor's Tranche 3 CPA appear to be inflated without appropriate justification. Examples of such cost elements include:

- Civil Works - \$20.82 million;
- Primary Plant: Supervisory Control And Data Acquisition (SCADA), Protection & Control, Communications - \$14.78 million;
- Design and Procurement - \$12.18 million;
- 'Other' costs, including:
 - Primary Plant: Other Primary Materials – \$4.00 million;
 - Contracts: Other - \$3.76 million; and
 - Primary Plant: Other - \$1.41 million.

Key drivers of these costs are large increases in the hours of labour allocated to particular tasks, the labour rates and increased unit cost of materials.

Labour allocations. Labour allocations have significantly increased. For example:

- design and procurement works have increased by 67 per cent, from 5,200 hours per ZSS in Tranche 2 to 8,700 hours per ZSS in Tranche 3. The total cost increased to \$12 million, roughly double the \$6 million cost in Powercor's Tranche 2 CPA;
- the \$14.8 million in SCADA works proposed in Powercor's Tranche 3 CPA reflects an average cost of \$2.11 million per ZSS, an increase of \$1.24 million from Tranche 2 and \$1.03 million from Tranche 1;
- Powercor allocated 5,600 hours of labour to install each Ground Fault Neutraliser (GFN) in its Tranche 3 CPA. In contrast, the average allocation for GFN installation in Powercor's Tranche 2 CPA was 1,700 hours and 1,200 hours for Tranche 1. DELWP anticipates Powercor should have some efficiency gains from its two tranches of experience in installing GFNs. The increased labour allocation results in additional costs of approximately \$1 million per GFN, a total of \$8 million; and
- the hours of live linework projected for each surge arrestor site installation has doubled, leading to a \$4 million cost increase from the company's Tranche 2 CPA.

Labour rates. Labour rates (\$/hour) have increased up to 26 per cent from its 2018 Tranche 2 CPA. Powercor has allocated up to \$314 per hour for sub-testers – more than double the rates for similar work in AusNet's Tranche 3 proposal.

Unit costs. The unit costs of some items have increased significantly:

- admittance balancing units (single phase) increased by 21 per cent (though the overall cost decreased from \$3.7 million in Tranche 2 to \$2.6 million in Tranche 3, due to fewer units purchased despite a large unit cost increase);
- the unit cost of control rooms (\$0.84 million each) has more than doubled from Tranche 2 (\$0.40 million each) without justification; and
- Powercor includes \$2.3 million in its cost model for indoor switch rooms at its ART and KRT substations (\$1.15 million each). This represents a 32 per cent increase in unit cost for these works from Tranche 2 (\$0.87 million) and is more than double the unit cost for such works in Tranche 1 (\$0.49 million). There is no explanation for these works contained in either Powercor's Tranche 3 CPA or in the substation-specific attachments to its CPA.

Total costs. There have also been large increases in some items that were provided as a total cost, without additional details about volume or rate, in particular:

- civil works has increased from \$4.37 million in Tranche 2 to \$20.82 million. This cost appears disproportionate for a project of this type given the Department's understanding of the substation infrastructure proposed; and
- there is a total of \$9 million in allocations for 'other', 'other primary materials', and 'other distribution materials' which are not detailed further. DELWP requests that AER investigate the nature of these costs, noting the large sums and increases from previous tranches.

Costs including those outlined above should be closely investigated to minimise impacts on Victorian consumers and excluded from the AER's final determination.

Issue 3: Misattributing capex as REFCL works instead of 'business as usual' expenditures

Only capex necessary to comply with the *Electricity Safety Act 1998's* 'required capacity' earth fault standards should be allowed in Powercor's Tranche 3 CPA determination.

Expenditures that have a dual purpose, both to comply with 'required capacity' but also to replace outdated equipment, augment the network or improve the network's overall efficiency, should either be excluded or not attributed entirely to REFCLs. The following cost elements raise such concerns:

- Feeder Works: Third phase line extension - \$3.98 million;
- Primary Plant: Control room – \$3.36 million; and
- Primary Plant: Indoor switch room (incl. GFN enclosure and switchboard) – \$2.30 million.

Third phase line extensions. Powercor is seeking \$4 million to extend a third phase (i.e. conductor) to its single phase (i.e. two wire) feeders to 'provide a better engineering outcome through a greater ability to switch and operate the network in a safe and reliable manner'.

While such expenditures may be appropriate and prudent from a network planning perspective, they are not directly related to achieving compliance with 'required capacity'. The \$4 million proposed for third phase extensions should be excluded.

Control rooms. Powercor also requests \$3.4 million to construct four new control rooms at CRO, HTN, Stawell (STL) and TRG. The works at CRO and STL are proposed to replace 'ageing and asbestos-ridden building(s)' that are 'space-constrained'. Likewise, Powercor advises that 'the large number of aged electromechanical relays at CRO would also be replaced' in its CPA. All these works are entirely, or at least substantially, BAU capex (specifically, repex) and should be excluded. The justification for new control rooms at all four ZSSs is that the sites are space constrained. Aerial views of the sites do not support this suggestion and these costs appear to be largely BAU capex

Issue 4: Inclusion of duplicative cost items

The following cost items in Powercor's Tranche 3 CPA have previously been fully funded by the AER and should be excluded from this CPA determination:

- a spare GFN and associated costs – \$3 million;
- HVC costs – \$1.7 million; and
- a test trailer – \$0.3 million.

Spare GFN. Powercor seeks \$3 million to acquire a spare GFN. However Powercor was previously provided funding for a spare GFN in its Tranche 2 CPA and it does not appear that a second spare GFN is a reasonable and prudent investment. The cost of the spare GFN has also increased, from \$1.2 million in Tranche 2 to \$3 million in Tranche 3. This increase is associated with labour costs to replace a possible future GFN fault. Since labour would only be incurred if or when a GFN fails, it is a speculative future cost that Powercor should not be able to recover via this CPA.

HVC costs. Approximately \$1 million of the \$1.7 million that Powercor seeks for works related to HVCs appears unnecessary, namely the cost of 'independently verify(ing) third party reports that HV customers are appropriately hardened or able to be isolated from our network during the operation of a REFCL'.

This independent verification is unnecessary. Powercor's proposed installation of Automatic Circuit Reclosers (ACRs) on its network would already protect it from faults caused by any HVC assets that fail during REFCL operation. Secondly, HVC works are already being reviewed by Energy Safe Victoria (ESV), DELWP and a DELWP technical advisory panel through the Government's High Voltage Customer Assistance (HCAP) and HCAP Hardship funding programs.

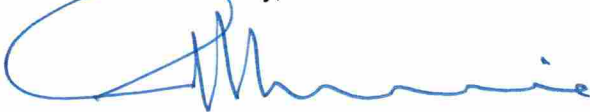
Test trailers. The \$300,000 Powercor seeks for two test trailers is unnecessary and should be excluded. The company was allowed \$155,000 in its Tranche 2 CPA to acquire a second test trailer, which Powercor stated was 'necessary on an ongoing basis to enable testing and commissioning of different zone substations at the same time, as well as for annual testing of the REFCLs'. Powercor has not indicated why two more testing trailers are required.

Conclusion

The Victorian Government remains committed to ensuring that all improvements to the electricity distribution network, particularly those works that relate to implementing the Government's enhanced earth fault standards, are provided at a fair and reasonable cost and all expenditures are attributed and allocated in the AER's contingent project and EDPR processes. We trust that the AER will undertake all regulatory, technical and financial due diligence in its interrogation of the forecast capital expenditures identified in Powercor's Tranche 3 CPA.

Thank you for the opportunity to provide a submission to you on the Powercor CPA. Should you require further information please contact Tiah Monahan, Acting Director, Energy Programs, at (03) 9637 9139 or tiah.monahan@delwp.vic.gov.au.

Yours sincerely,



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