CITIPOWER

AUGMENTATION

CBD SECURITY OF SUPPLY

CP RRP BUS 3.3.05 – PUBLIC
2026–31 REVISED PROPOSAL

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1. Overview

This business case addendum sets out our revised proposal in response to the AER's draft decision on our central business district (CBD) security of supply obligations.

Given its significant criticality to Melbourne's economic and social prosperity, our CBD network is subject to strict planning requirements, referred to as a 'N-1 secure' planning standard. This standard is deterministic; that is, it does not allow for our more typical probabilistic planning.

Our regulatory proposal business case set out that our preferred option was to construct three new feeders from our Montague zone substation (MG) into the Docklands Precinct currently supplied by the Spencer Street zone substation (JA).[1] This option delivers the highest net benefits for customers.

We also proposed a contingent project to rebuild our old and decommissioned Spencer Street (J) zone substation that neighbours JA to manage the remaining forecast energy at risk, should it eventuate, to ensure we maintain compliance with our CBD security of supply obligations through the 2026–31 regulatory period.

In its draft decision, the AER accepted our proposed new MG feeders. The AER, however, did not consider that the rebuild of our J zone substation met the requirements in the National Electricity Rules (the Rules) to be included as contingent project; rather, the AER considered the expenditure is sufficiently certain enough to be included in forecast capex.[2]

We agree with the AER's draft decision, and our revised CBD security of supply proposal therefore includes expenditure to commence the rebuild of our J zone substation in the 2026–31 regulatory period with the completion of these works continuing into the 2031–36 regulatory period. Our revised proposal is supported by economic modelling that shows energy at risk under our compliance obligations.[3]

For the avoidance of doubt, should the AER not accept the inclusion of our proposed rebuild of the J zone substation in the 2026–31 regulatory period, we maintain that any substitute should include our original contingent project. In this context, and to the extent necessary, we would welcome further discussions with the AER on any concerns it may have for amendments to our proposed trigger.

Our revised proposal forecast to maintain compliance with our CBD security of supply obligations is presented in table 1 below.

TABLE 1 EXPENDITURE FORECAST FOR CBD SECURITY OF SUPPLY ($M, 2026)

PROJECT	REGULATORY PROPOSAL	DRAFT DECISION	REVISED PROPOSAL
Construct new feeders from MG to JA	19.1	19.1	19.1
Rebuild J zone substation	-	-	37.8
Total	**19.1**	**19.1**	**56.9**

Note Rebuilding the J zone substation includes $30.9m expenditure in the 2031-36 regulatory period

1 CP BUS 3.04 – CBD security of supply – Jan2025
2 AER, Draft decision, CitiPower electricity distribution determination, overview, p. 25
3 CP RRP MOD 3.3.08 - CBD security of supply - Dec2025 - Public

2. Background

This section briefly summarises our regulatory proposal and the AER's draft decision that supported maintenance of our CBD security of supply obligations through the 2026–31 regulatory period.

2.1 Our regulatory proposal

We must maintain compliance with our CBD security of supply obligations that require us to maintain N-1 secure planning standards in Melbourne's CBD. That is, we must maintain supply after the loss of two 66kV cable elements, with an allowance of 30 minutes switching time after the loss of the first element. The N-1 secure standard is a deterministic standard that is a stronger planning requirement and does not allow for probabilistic planning.

Under our original regulatory proposal, our 10 per cent probability of exceedance (PoE) demand forecasts, demonstrated that we would need to construct new feeders from MG zone substation to the Docklands Precinct currently supplied by the JA zone substation early in the regulatory period. This would be followed by the rebuild our J zone substation later in the regulatory period to maintain compliance with our CBD security of supply obligations.

However, given the uncertainty associated with demand growth and the large capital expenditure requirements of rebuilding our J zone substation, we proposed a contingent project for this part of our program. This approach reduced costs for customers in the event that demand growth did not eventuate.

2.2 AER draft decision

The AER's draft decision accepted our proposed expenditure to construct new feeders from MG zone substation to maintain compliance with our CBD security of supply obligations. However, the AER rejected our contingent project to rebuild J zone substation.

The AER did not consider the J zone substation contingent project met the requirements in the Rules as it determined the expenditure was sufficiently certain enough to be included in forecast capital expenditure:[4]

> *We do not consider the … J Zone Substation contingent projects meet the requirements in the NER to be included as contingent project, as the expenditure is sufficiently certain enough to be included in forecast capex.*

The AER also considered the cost for this project was reasonably certain, which again meant this project did not meet Rules criteria to be classified as contingent.

The AER recommended that we either:[5]

- provide additional evidence to support why the occurrence of the trigger event for this project is not sufficiently certain
- include this expenditure in our revised proposal capital expenditure forecast.

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[4] AER, Draft decision, CitiPower electricity distribution determination 1 July 2026 – 30 June 2031, Overview, p. 25

[5] AER, Draft decision, CitiPower electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 2 - capital expenditure, p. 63

3. Our revised proposal

We recognise the AER's acceptance of the proposed construction of new feeders from MG zone substation to the Docklands Precinct supplied by the JA zone substation and have included these in our revised proposal. For the reasons set out below, our revised proposal also includes the commencement of our J zone substation rebuild.

3.1 Response to AER decision

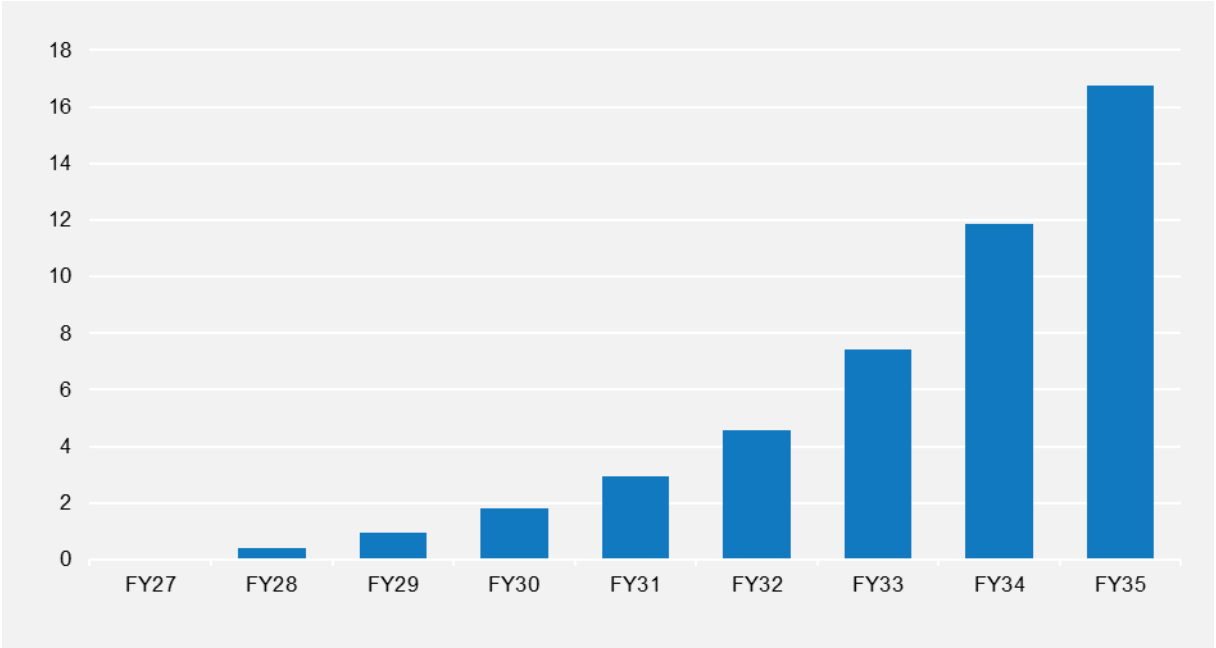
The AER determined that construction of the J zone substation does not meet the requirements under the Rules to be classified as a contingent project because they could not determine that the trigger event for the J zone substation was reasonably uncertain.

Under our regulatory proposal forecasts, construction of the J zone substation was required to maintain compliance with our deterministic CBD security of supply obligations under our 10 per cent POE forecast. We have updated our revised proposal demand forecasts to include more recent AEMO inputs and assumptions, another 12 months of network and customer smart meter data and additional load from the electrification of gas, which was inadvertently omitted from our regulatory proposal. We have also updated our transfers analysis and adopted the AER's updated values of customer reliability where appropriate.

3.1.1 New feeders are still required under our updated demand forecasts

Our revised proposal demand forecasts continue to show that we will be non-compliant with our CBD security of supply obligations early in the 2026–31 regulatory period without augmentation. Figure 1 below, for example, shows the amount of energy at risk in the CBD security of supply area under our base case with no augmentation.

FIGURE 1 BASE CASE CBD SECURITY OF SUPPLY ENERGY AT RISK (MWH)



As outlined in our regulatory proposal and agreed by the AER in its draft decision, constructing feeders from MG zone substation to the JA zone substation continues to be the least cost option to maintain compliance with our CBD security of supply obligations.

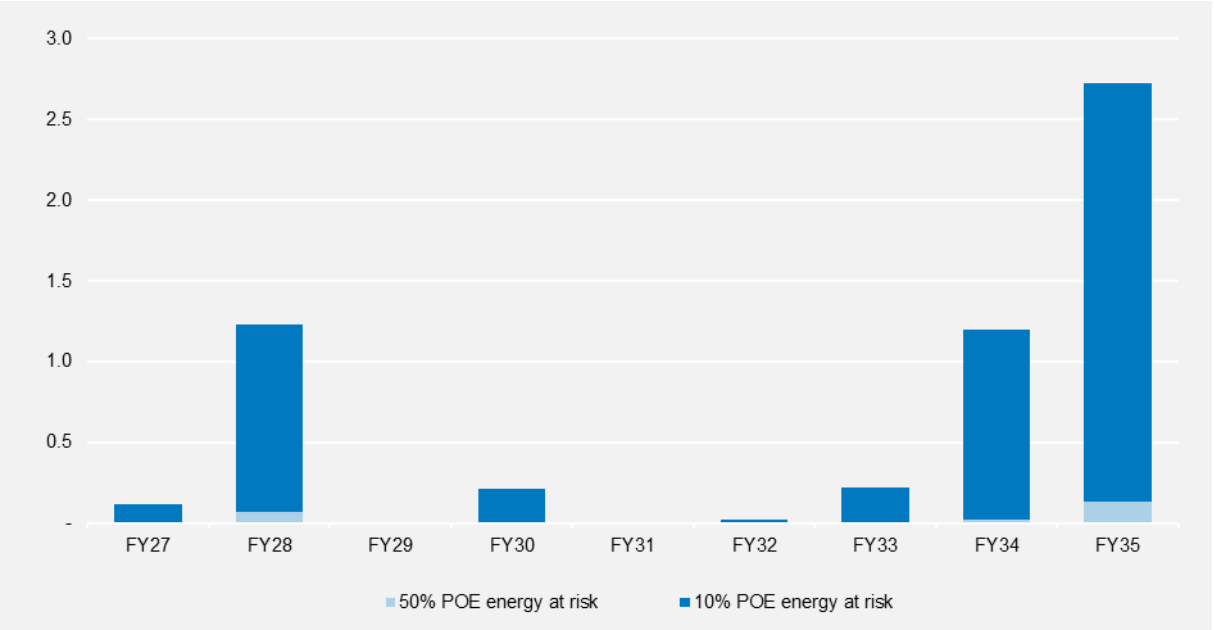
The alternative would be to construct our J zone substation commencing immediately, which given construction timeframes would only reduce energy at risk from FY31 onwards and does not allow us to maintain compliance with our obligations in the intervening period.

3.1.2 We have determined the optimal timing to commission the J rebuild using updated demand forecasts

Commissioning the MG feeders by FY28, consistent with our regulatory proposal and the AER's draft decision, leads to residual energy at risk under our updated demand forecasts. The amount of energy at risk under this option is shown in figure 2 below.

Under our revised proposal demand forecasts, it is prudent to commission the J zone substation by FY33 to avoid energy at risk under our 50 per cent POE forecast from FY34 onwards. FY34 is also when energy at risk begins to exponentially grow under our 10 per cent POE demand forecast.

FIGURE 2 ENERGY AT RISK FOLLOWING CONSTRUCTION OF MG FEEDERS (MWH)



More detailed deliverability assessment

Consistent with the above, we have assessed the deliverability and planning requirements of rebuilding the J zone substation in more detail following the submission of our regulatory proposal. Rebuilding a zone substation in the Melbourne CBD is a complex endeavour and we have assessed that the process through design, planning approvals, construction and commissioning is likely to take five years. We have reflected this assessment in our updated profile of expenditure. The total cost to deliver the J zone substation remains unchanged.

We will continue to seek economic non-network alternatives

For the avoidance of doubt, our revised proposal forecasts have also considered the likelihood of non-network solutions to be able to defer the need to rebuild our J zone substation.

Given the deterministic nature of our CBD security of supply obligation, a non-network solution would be required to provide firm and certain capacity at all times of the year (to maintain compliance). It is highly unlikely that a non-network would be technically and economically viable to address the identified need on this basis.

However, we will continue to publish information on this constraint and project in our distribution annual planning report (DAPR) and follow our demand-side engagement strategy to ensure that non-network providers are given the opportunity to propose alternative solutions.

This project will also be subject to a regulatory investment test for distribution (RIT–D) before commitment. This will maximise the chance of a viable non-network solution being identified through the engagement of non-network service providers during the RIT-D consultation.

Regarding load transfers, we note further that the deterministic N-1 secure CBD security of supply obligations already require us to utilise distribution transfer capacity to meet the obligations while limiting the time available for their use to 30 minutes. As such, the energy at risk calculations already allow for substantial transfers to occur at 11kV to the limits of the network capacity. This results in no available additional distribution load transfers and limitations on the receiving zone substations transformation capacity.

3.2 Revised proposal forecast

In our revised proposal, we accept the AER's draft decision for delivering new feeders from our MG zone substation to JA zone substation. We have also aligned with the AER's recommendation to include (the commencement of) the rebuild of our J zone substation in our underlying capital expenditure forecast. Specifically, our revised proposal capital expenditure forecast includes 55 per cent of the total cost of delivering the J zone substation rebuild across the period from FY29 to FY33.

Our revised proposal maintains compliance with our CBD security N-1 secure planning standard at the lowest cost for customers.

Our revised proposal expenditure forecast is presented in table 2 below.

TABLE 2 REVISED CBD SECURITY OF SUPPLY INVESTMENT ($M, 2026)

CAPITAL EXPENDITURE	FY27	FY28	FY29	FY30	FY31	TOTAL
New feeders from MG to JA	8.8	10.3	-	-	-	19.1
Rebuild J zone substation	-	-	0.6	16.6	20.6	37.8
Revised proposal total	**8.8**	**10.3**	**0.6**	**16.6**	**20.6**	**56.9**

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