



15 May 2020

Kami Kaur
(Act) General Manager Network Distribution
Australian Energy Regulator
Level 16, 2 Lonsdale Street
Melbourne, 3000

Dear Kami

Re: Amendments to select step changes and capital programs in our 2021–2026 regulatory proposals

CitiPower, Powercor and United Energy are writing to the Australian Energy Regulator (AER) to advise of amendments to a number of operating expenditure step changes and capital expenditure programs in our 2021–2026 regulatory proposals.

Our proposals, as submitted in January 2020, are based on regulatory obligations assumed to be in effect during 2021–2026. Since the submission of our proposals, a number of presumed regulatory obligations have changed or been deferred. We have assessed the impact of these changes and have consequently made the following amendments to our 2021–2026 proposals:

- withdrawal of the step change, and a significant reduction in the capital expenditure program, related to meeting the new obligations of Environmental Protection (EP) Amendment Act 2018—for CitiPower, Powercor and United Energy
- withdrawal of the reclassification of the 'food belt' to high bushfire rated area (HBRA) step change—for Powercor
- reduction in the Rapid Earth Fault Current Limiter (REFCL) incremental ongoing operating costs step change—for Powercor.

The reason behind, and the quantum of, each amendment are discussed in the sections below. We have also attached updated models that reflect the said changes.

We are sharing these amendments early to ensure the AER has sufficient information and time to factor them into their draft decisions in September 2020.

1 EP Amendment Act 2018 and draft regulations step change and capital program—CitiPower, Powercor and United Energy

At the time of the preparation of our regulatory proposals, the EP Amendment Act 2018 was expected to repeal the EP Act 1970 from 1 July 2020. The new Act establishes a proactive regulatory approach to preventing waste and pollution impacts, rather than managing the impacts after they occur. In August 2019, the Victorian Government published the draft Environment Protection Regulations (draft regulations), along with the regulatory impact statement (RIS). Our proposed operating expenditure step changes and capital program on bunding and noise was estimated based on the draft regulations.

In May 2020, the Victorian Government announced the deferral of the EP Amendment Act 2018 to 1 July 2021. The final regulations are also likely to be deferred to post March 2021. The deferral in the legislation and the regulations create uncertainty in our regulatory obligations and do not give us enough clarity to proceed with expenditure forecasts in time for the revised proposal.

Consequently, we are withdrawing the operating expenditure step change related to meeting the new obligations under EP Amendment Act 2018. We are also withdrawing a large majority of the capital expenditure

related to meeting these obligations, reverting to our historical capital expenditure on environmental management.

Table 1 shows the EP Amendment Act 2018 and draft regulations 2021–2026 costs proposed in January 2020 and the amended 2021–2026 costs.

Table 1 Amendment to expenditure related to meeting obligations under EP Amendment Act 2018 and draft regulations (\$m, 2021)

	2021–2026 regulatory proposals, January 2020	Amended 2021–2026 costs
Operating expenditure step change		
CitiPower	\$6.1	\$0
Powercor	\$9.6	\$0
United Energy	\$11.8	\$0
Capital expenditure		
CitiPower	\$71.3	\$4.6
Powercor	\$47.8	\$0.8
United Energy	\$82.7	\$1.0

Source: CitiPower, Powercor, United Energy

The summary of the new proposed capital expenditure is provided in the attached model 'CPPALUE - Environment expenditure amendment - May2020 – Public'.

Once the final regulations are published, we will consider the impact of the regulations on our businesses and assess the need for a cost pass-through event related to the introduction of the new legislation and regulations.

2 Reclassification of the 'food belt' to high bushfire rated area (HBRA) step change—Powercor

At the time of the preparation of Powercor's regulatory proposal, the Country Fire Authority (CFA) was reviewing its bushfire hazard ratings, namely low bushfire risk areas (LBRA) and high bushfire risk areas (HBRA). Preliminary discussions with the CFA and Energy Safe Victoria (ESV) indicated that a large portion of land located north of Shepparton and north-west through to Mildura (food belt) was likely to be reclassified from LBRA to HBRA. A reclassification from LBRA to HBRA would have resulted in a material increase in operating expenditure related to managing a higher risk of bushfire.

In March 2020, CFA have reclassified their hazard ratings, with fewer HBRA reclassifications than originally expected. The operating expenditure uplift related to the final reclassifications is not considered to be material. Consequently, we are withdrawing the step change from Powercor's proposal.

Table 2 shows the value of the step change as per our regulatory proposal and amended 2021–2026 costs.

Table 2 Amendment to the 'food belt' reclassification step change, Powercor (\$m, 2021)

	2021–2026 regulatory proposal, January 2020	Amended 2021–2026 costs
Operating expenditure step change	\$21.5	\$0

Source: Powercor

3 REFCL incremental ongoing operating costs step change—Powercor

We are required to progressively install REFCLs at 22 zone substations to comply with the Electricity Safety (Bushfire Mitigation) Amendment Regulations 2016 (Amended Bushfire Mitigation Regulations) which were implemented in Victoria on 1 May 2016.

Once an installed REFCL is commissioned and becomes operational, we must demonstrate compliance against the performance criteria to ESV. To ensure we meet the performance criteria, we must undertake compliance testing, re-balancing works and technical and engineering support. For REFCLs that become operational in 2019 onwards, this will result in material incremental annual operating expenditure that is not reflected in our 2019 base operating expenditure.

Our step change was based on the obligation to test every feeder at a REFCL zone substation per year. On 15 April 2020, we proposed amendments to our annual capacity testing policy to ESV, to reduce our annual testing obligations to the following:

- testing can be done on one feeder per REFCL zone substation, rather than on each feeder
- every feeder to be tested at least once every five years.

On 27 April 2020, ESV agreed to our proposed changes, as per attachment 'ESV - Letter to Powercor regarding Policy for Annual Capacity Testing - April2020 – Public'. We have updated our step change proposal to reflect this change. These changes will also be reflected in our updated 2020 Bushfire Mitigation Plan.

Table 3 shows the value of the step change as per our regulatory proposal and amended 2021–2026 costs.

Table 3 Amendment to the REFCL incremental ongoing operating costs step change, Powercor (\$m, 2021)

	2021–2026 regulatory proposal, January 2020	Amended 2021–2026 costs
Operating expenditure step change	\$13.3	\$8.4

Source: Powercor

The summary of the new proposed operating expenditure step change is provided in the attached model 'PAL MOD 9.01a - REFCL step change amendment - May2020 – Public'. This model also includes updates to the timing and location of future REFCLs, as agreed with ESV.

Should you have any queries about this letter please do not hesitate to contact Brent Cleeve on [REDACTED] or [REDACTED]

Yours sincerely

[REDACTED]

Renate Vogt
General Manager Regulation
CitiPower, Powercor and United Energy