



22 August 2019

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via email: Chris.Pattas@aer.gov.au

Dear Mr Pattas

Powercor contingent project application— REFCL program: tranche three

Please find attached Powercor's third contingent project application relating to the installation of REFCLs in our network. The 'tranche three' application covers seven zone substations, namely Ararat, Corio, Hamilton, Koroit, Merbein, Stawell and Terang.

This application is consistent with the contingent project trigger event set out in the AER's final decision for our 2016–2020 regulatory period.

As discussed in our meeting with AER staff on 18 July 2019, the timing of this application together with the change in the regulatory control period gives rise to some questions regarding the treatment and recovery of costs. We have set out below the questions that we raised at that meeting:

1. Capital costs
 - a) The AER decision for the CPA3 is likely to be in 2020, and therefore capital costs for 2019 and 2020 will not be in the 2020 tariffs. How will those costs be recovered?
 - b) The AER indicated that it can approve capital costs for the 2021 to 2026 regulatory control period through CPA3. What is the mechanism for the approved capital costs to be reflected in the regulatory reset and determination?
 - c) How is the CESS adjusted for the current and subsequent regulatory control periods?
2. Operating costs
 - a) The AER decision for the CPA3 is likely to be in 2020, and therefore operating costs for 2019 and 2020 will not be in the 2020 tariffs. How will those costs be recovered?
 - b) Can the AER approve operating costs for the 2021 to 2026 regulatory control period through the CPA3?
 - c) How is the EBSS adjusted for the current (and potentially subsequent) regulatory control periods?
3. Accelerated depreciation
 - a) Can the AER approve accelerated depreciation on an asset for the current and subsequent regulatory control periods through the CPA3? If so, how is it recovered?

As we have not received a response to these questions, we will not seek AER approval for accelerated depreciation or operating costs in the 2021–2026 regulatory period through this application. Rather, we will include these costs within our regulatory proposal for the 2021–2026 regulatory period.

Our questions in relation to capital costs remain outstanding, and we would be grateful for any guidance that you can provide on the matter.

We welcome the opportunity to discuss this application with the AER. Please contact Elizabeth Carlile on 03 9683 4886 or ecarlile@powercor.com.au if you have any questions.

Yours sincerely

A handwritten signature in blue ink that reads "Renate Vogt". The signature is fluid and cursive, with the first name "Renate" being larger and more prominent than the last name "Vogt".

Renate Vogt
General Manager Regulation
CitiPower, Powercor & United Energy