23 October 2012

Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600
Australia
By email: electricityprices.sen@aph.gov.au

Dear Senators

SENATE SELECT COMMITTEE INQUIRY ON ELECTRICITY PRICES (INQUIRY)

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to make this submission in support of their verbal responses to certain of the questions posed, and issues raised, by the Senators at the Inquiry public hearing in Melbourne on 27 September 2012.

The Businesses' positions on key issues relevant to the Inquiry are also set out in a joint submission from the Victorian distribution businesses, dated 14 September 2012. Nothing in this submission changes any of the positions in that submission.

1. Overview

The key points raised in this submission are as follows:

- Powercor Australia (**Powercor**) rejects assertions that its capital expenditure (**capex**) over the 2006-10 period was inefficient. In terms of capex that it initiated, Powercor underspent the allowance set by the regulator by 27 per cent over this period. In terms of capex that customer's initiated, Powercor overspent the regulatory allowance, however, Powercor has regulatory obligations to offer to connect all customers seeking to connect to its network and therefore must undertake this work; and

- The Businesses reject assertions that they are a barrier to the connection of embedded generation to their networks. The Businesses support the connection of embedded generation and note that currently there is already a total of 285MW of medium and large scale embedded generation connected within the Businesses' networks (excluding small scale residential solar PV).

2. Issues

2.1. Powercor's overspend against its 2006-10 capex allowance

Issue raised by the Senate

Senator Thistlethwaite, the Chair of the Inquiry, stated that *"Powercor had overspent on its capex by $104 million from 2006 to 2010"*. Senator Thistlethwaite referenced this statement to a Parsons Brinckerhoff report (**PB Report**), dated 16 August 2012, commissioned by Australian Energy Market Commission (**AEMC**) to inform its *Economic Regulation of Network Service Providers, Draft Rule Determination* of 23 August 2012 (**Draft Determination**).

Senator Thistlethwaite went on to say:

> *I want to offer you the opportunity to respond to those allegations and whether you see the process that is being undertaken by the AEMC in terms of the rule change as warranted and justified.*

The Businesses' response

Powercor's capital expenditure, like that of all distribution businesses, comprises two components:

- Expenditure which is initiated by customers ie: *"customer connections"* and is therefore not determined by Powercor. That is, Powercor must undertake this expenditure - it has regulatory obligations to offer to connect customers seeking to connect to its network; and
- Expenditure which it initiates itself to meet all of its obligations and ensure the safe and reliable supply of electricity to its customers.

In terms of the 2006-10 capex which:

- Powercor initiated itself, Powercor underspent the regulatory allowance by 27 per cent (refer to Attachment 1). This highlights that Powercor's capex over this period was efficient; and
- Customer initiated, Powercor overspent the regulatory allowance by 98 per cent which highlights that the regulatory allowance was incorrect – it proved an inaccurate forecast of the number of customers seeking to connect, and the cost of connecting those customers, to Powercor's distribution network.

The Businesses are generally supportive of the proposed changes to Chapter 6 of the National Electricity Rules (**Rules**), associated with strengthening capex incentives, as set out in the AEMC's Draft Determination. The Businesses consider that creating an incentive framework for the achievement of capex efficiencies is preferable to the more intrusive and costly option of the regulator undertaking ex post reviews.

2.2. Barriers to the connection of embedded generation

Issue raised by the Senate

Senator Milne stated that:

> *the Clean Energy Council, as you would be aware, has made it very clear over a long period of time that, while embedded generation can play a pivotal role in reducing costs to consumers, a key barrier is the distributors. The Clean Energy Council, as you know, asserts that there are real delays in connection of applications because the introduction of a generator into a distributor's network has the effect of reducing the distributor's revenue from the energy delivered and therefore there is no incentive. So you end up with people being refused entry, effectively, by virtue of the time frames and the delays. How do you respond to the Clean Energy Council's criticism that the distributors are actually a barrier to the take-up of renewable and efficiency?*

The Businesses' response

The Businesses support the connection of embedded generation to their networks and follow the connection processes under the Rules, and other relevant regulatory instruments, in assessing connection applications.

The Businesses recognise that while the connection of small scale residential solar PV generation is not a lengthy process, the connection of medium and large scale generation may be a longer process – due to the following:

- The need for the Businesses to undertake detailed, case by case, assessments of the impact of any proposed connection on the network including in terms of the safety, security and reliability of supply to other customers. The Businesses have clear obligations to ensure they operate their network in a manner safe to their employees and the public;

- The extent of any network upgrade required to facilitate a connection. If the network is already constrained in the area that the customer is seeking to connect, then network investment may be required to ensure the Businesses can continue to operate their network safely in accordance with their technical requirements in light of the connection – this understandably may take time; and

- The quality and completeness of the initial information provided by the embedded generator. Often the information provided is incomplete and therefore the Businesses have to seek further information before they can proceed with assessing the application. The Businesses emphasise that the time between when the embedded generator first contacts them in relation to a connection and when they have provided all the required information for the Businesses to commence assessing the application, can be substantial.

The Businesses fully support the connection of embedded generation and emphasise that the length of the connection process is influenced by the matters set out above. The Clean Energy Council acknowledged the reasons for these timeframes in its recent response to the AEMC's Embedded Generation Rule Change consultation. In particular, the Clean Energy Council stated:

> *Getting a connection enquiry to the connection offer stage takes a significant effort and can coincide with the ongoing development of the generation project parameters, or changes to the relevant network.*[1]

Yours sincerely

Richard Gross
GENERAL MANAGER REGULATION AND BUSINESS DEVELOPMENT

[1] Clean Energy Council submission to the AEMC Embedded Generation Rule Change Consultation, ERC0147, 10 August 2012

ATTACHMENT 1: Powercor's capex over 2006-10

Table 1 below sets out Powercor's capex over the 2006-10 period. This is based on Table 3.4 of Parsons Brinckerhoff's **(PB)** report entitled *"Report on capital expenditure overspends by electricity network service providers"*, dated August 2012. This was commissioned by the AEMC to inform its *Economic Regulation of Network Service Providers, Draft Rule Determination* of 23 August 2012.

Capex 2006-10 ($'000, real 2010)	Regulatory allowance	Powercor's actual capex	Difference %	Difference ($)
Customer initiated				
Gross customer connections	319,077	632,684	98%	313,607
Corporation initiated				
Reinforcements	199,033	146,818	-26%	- 52,215
Reliability and quality maintained	318,937	262,997	-18%	- 55,940
Reliability and quality improved	22,713	1,971	-91%	- 20,742
Environmental, safety and legal	92,512	37,613	-59%	- 54,899
SCADA and network control	18,294	6,363	-65%	- 11,931
Non-netowrk - IT	66,162	28,206	-57%	- 37,956
Non-network - other	62,382	86,352	38%	23,970
Total capex	**1,099,110**	**1,203,004**	**9%**	**103,894**
Total corporation initiated capex	**780,033**	**570,320**	**-27%**	**- 209,713**

Table 1: Powercor capex 2006-10