

Customer Forum Week 12: Opex Update



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Opex update

- ▶ Productivity update
- ▶ Cranbourne Terminal Station

AER productivity Review

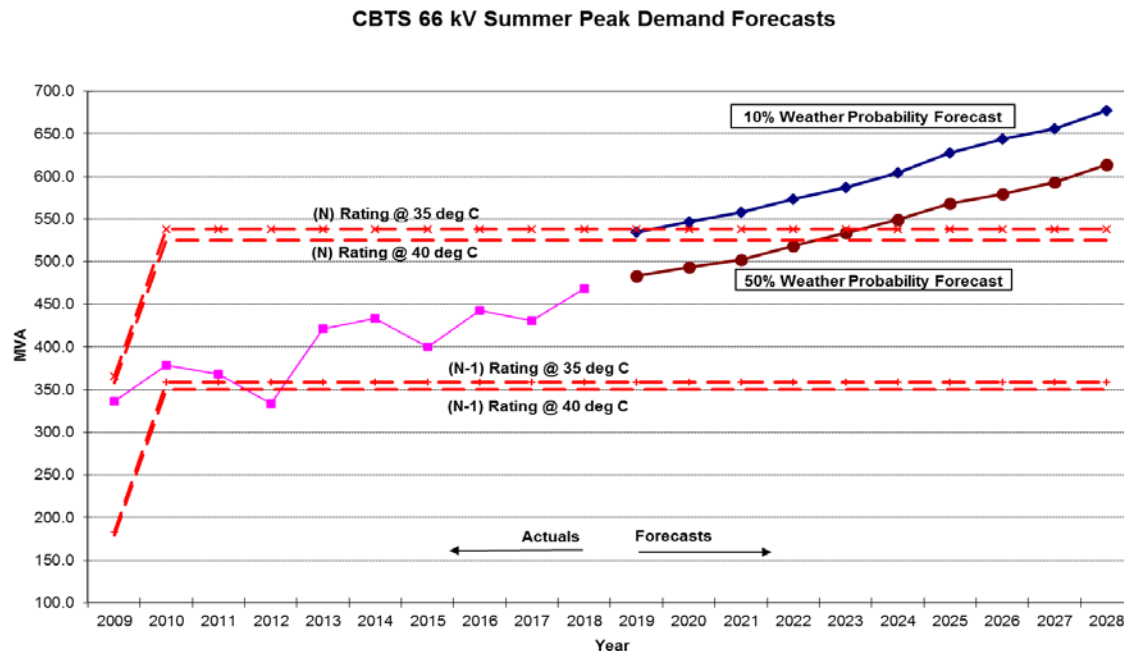


- ▶ **The AER's Final Decision was released on 8 March 2019. The AER's decision is to apply a productivity adjustment of 0.5% per annum. The AER stated:**
 - › This reflects the best estimate of the opex productivity growth that an electricity distributor on the efficiency frontier should be able to achieve going forward, rather than any efficiency catch-up by individual distributors.
- ▶ **The AER did not apply an adjustment for increased proportion of undergrounding. The AER stated:**
 - › We are using a range of information sources to inform our opex productivity growth factor of 0.5 per cent per year, and some of these information sources take into account the impact of increased undergrounding. As a result, we consider undergrounding supports the case for positive productivity, but that at this stage given the information sources we are relying on we cannot incorporate it as an additional source of productivity. This is a conservative approach and minimises the possibility of any double counting.
- ▶ **Applying the AER's final decision on its productivity review will reduce our opex forecast by \$16.84 million (based on draft proposal).**

Cranbourne Terminal Station (CBTS)



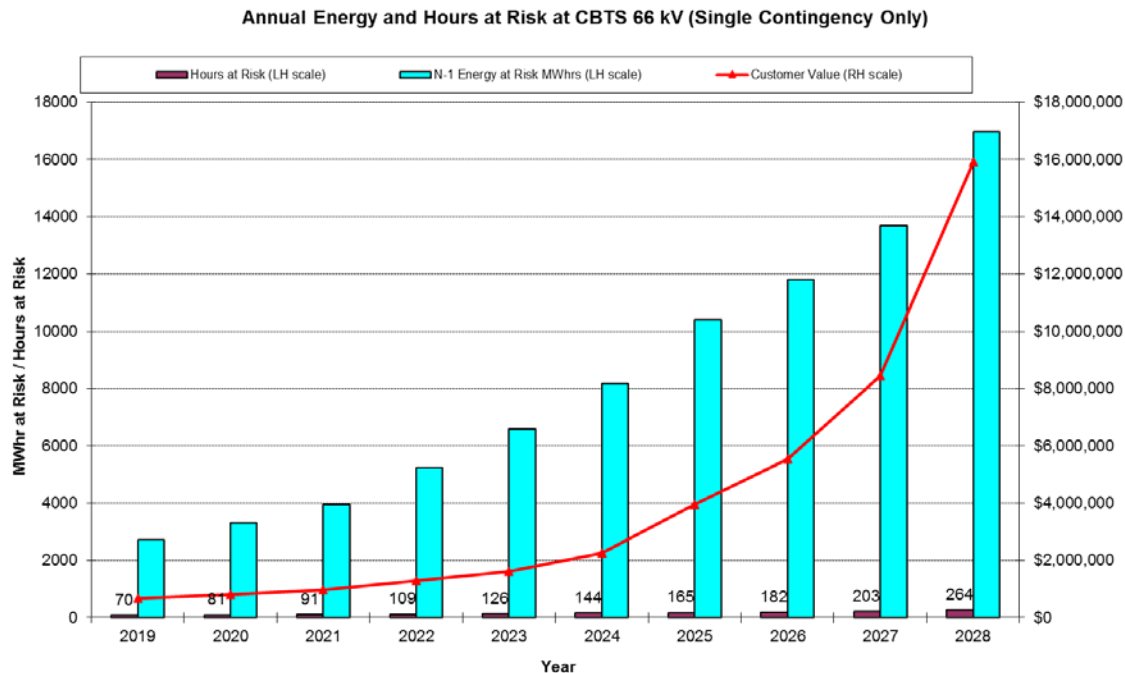
- ▶ Cranbourne Terminal Station (CBTS) was originally commissioned with two 150 MVA 220/66 kV transformers in 2005 to reinforce the security of supply for United Energy and AusNet Electricity Services. A third 150 MVA 220/66 kV transformer was commissioned in 2009.
- ▶ The summer peak demand at CBTS has increased by 159 MVA between 2007/08 and 2017/18, which is equivalent to an average annual growth rate of 4.7%. The peak demand on the station reached 453.4 MW (469.0 MVA) in summer 2017/18, which is an all-time peak demand record for the station.



Cranbourne Terminal Station (CBTS)



- ▶ The chart below depicts the energy at risk with one transformer out of service for the 50th percentile demand forecast. The line graph shows the value to consumers of the expected unserved energy in each year.
- ▶ Following finalisation of the demand forecasts this project was re-assessed in December 2018). The previous demand forecasts had the expenditure occurring outside the 2021-25 regulatory period.



Cranbourne Terminal Station (CBTS) - Options



- ▶ **The following options are possible actions to mitigate the risk of supply interruption and/or to alleviate the emerging constraint:**
 - › Implement contingency plans to transfer load to adjacent terminal stations - already undertaken.
 - › Establish a new 220/66 kV terminal station – AusNet Electricity Services expects that a new terminal station in the Pakenham area (with a site yet to be acquired) will be required in around 10 to 20 years to service demand growth in the region.
 - › Install a 4th 220/66 kV transformer at Cranbourne Terminal Station – The site has provision for a 4th transformer and implementing this option is relatively straight forward. Capital costs will be approximately \$20m.
 - › Install two new 50 MVAR 66 kV capacitor banks.
 - › Demand Management – Depending on availability could delay augmentation.
 - › Embedded Generation – Embedded generation, with a capacity in the order of 20 MW, connected to the CBTS 66 kV bus, could defer the need for augmentation by approximately two years.

Cranbourne Terminal Station (CBTS) – Regulatory Framework



- ▶ **A capex solution would require augmentation of ‘prescribed connection services’**
 - › AusNet Services (as the TNSP) apportions costs for the prescribed connection services to its customers including the DNSPs. As in other jurisdictions, Victorian DNSPs recover these costs from their customers via the annual pricing process.
 - › These costs are passed through by the DNSP and do not fall within AusNet Services revenue cap. As such, they are not considered within the EDPR.

- ▶ **A demand management solution undertaken by the DNSPs (AusNet Services and United Energy), would be an opex cost for those DNSPs and fits within the opex allowance of the EDPR. Without an approved step change AusNet Services would receive a financial penalty from adopting a demand management solution that has a lower overall cost for customers.**

- ▶ **AusNet Services proposed a rule change in 2011 to fix this element of the regime, however we were not successful with this rule change.**

Cranbourne Terminal Station (CBTS) – Demand Management Solution



- ▶ **Responsibility for planning the connection assets (or identifying/funding a demand management solution) is shared between AusNet Services and United Energy.**

- ▶ **A demand management solution could potentially delay the need to augment the CBTS to outside the 2021-25 regulatory period.**
 - › A candidate demand management solution has not yet been identified.
 - › AusNet Electricity Services and United Energy have commenced discussions to develop a Regulatory Investment Test for Transmission (RIT-T) to address the supply risks at CBTS.
 - › As part of the RIT-T process demand management providers will be able to nominate opportunities to delay the augmentation by providing a demand management solution.

- ▶ **A viable demand management solution could lead to a cheaper overall solution for customers.**

Cranbourne Terminal Station (CBTS) – Next Steps



- ▶ **AusNet Services and United Energy are jointly exploring whether a demand management alternative is feasible or would be economically justifiable. A joint position will be reached on whether to include an opex step change in our regulatory proposals.**