

Explanatory note: CitiPower and Powercor tender policy

The different types of augmentations referred to in the policy

- 1 The policy is separated into two parts, which deal with two different types of augmentations:
 - 1.1 Part 1 deals with augmentations to CitiPower/Powercor's distribution network.
 - 1.2 Part 2 deals with augmentations to the Victorian declared transmission system that are initiated by Powercor's distribution business.
- 2 The key distinction between these two parts is the functional level of the electricity network to which they relate. Different regulatory requirements apply to augmentations depending on whether they are to a Victorian distribution network or the Victorian declared transmission system. The policy is split into two parts to separately address the distinct requirements that apply to each type of augmentation. The concept of a separable augmentation is only applicable to the Victorian declared transmission system and, thus, to Part 2 of the policy.

Part 1: augmentations to CitiPower/Powercor's distribution network

- 3 Part 1 of the policy is designed to meet CitiPower and Powercor's requirements under clause 5.3 of the Electricity Distribution Code of Practice (**EDCOP**). Part 1 deals only with augmentations to CitiPower and Powercor's distribution network, as the EDCOP does not impose any requirements in relation to augmentations to the transmission system.
- 4 Chapter 5 of the EDCOP sets out certain requirements that apply to a distributor that is proposing to augment its distribution network. Clause 5.2.1 of the EDCOP requires a distributor to call for tenders for any construction works if it proposes to augment its network in connection with the provision of the following services (with certain exceptions set out in clause 5.2.4):
 - 4.1 A connection service requested by a connection applicant (e.g. when a customer or their agent applies for a connection to the distributor's network)
 - 4.2 Undergrounding (e.g. when a customer or their agent requests that any part of a distribution system be relocated underground)
 - 4.3 Services to other distributors such as power transfer capability services; and
 - 4.4 Public lighting services (e.g. the operation, maintenance, repair etc. of public lighting assets).
- 5 Clause 5.3 of the EDCOP requires distributors to develop tendering policies in relation to the above.

Part 2: augmentations to the Victorian declared transmission system and 'separable' augmentations

- 6 While Part 1 of the policy applies to augmentations to CitiPower and Powercor's distribution network, Part 2 deals with augmentations to the declared transmission system that are initiated by Powercor's distribution business (e.g. if Powercor receives a connection request for a large load and requires augmentation to the transmission system to accommodate this).
- 7 Augmentations to the declared transmission system may be to either the declared shared network or the connection assets which, together, comprise that system. The National Electricity Law (**NEL**) and the National Electricity Rules (**NER**) govern the procurement, and construction and operation, of augmentations to Victoria's declared shared network but are silent on who may construct and operate augmentations to transmission connection assets.
- 8 Accordingly, Part 2 of our tender policy commits Powercor's distribution business to:

- 8.1 procuring augmentations to the declared shared network in accordance with the applicable requirements of the NEL and the NER; and
- 8.2 conducting a competitive tender process to determine who will construct 'separable augmentations' to the connection assets that form part of the declared transmission system that are initiated by it.
- 9 The concept of a 'separable augmentation' is used under both:
- 9.1 the NEL and NER provisions governing the procurement, and construction and operation, of augmentations to the declared shared network; and
- 9.2 our tender policy provisions concerning the procurement of augmentations to transmission connection assets,
- to refer to those transmission system augmentations for which contestability – that is, construction and operation of the augmentations by a person other than the incumbent declared transmission system operator (**DTSO**) (being the DTSO that owns or operates the part of the transmission system to which the augmentation will connect) – is practically feasible.
- 10 Section 50F of the NEL and clause 8.11 of the NER govern augmentations to Victoria's declared shared network.
- 11 In doing so, clause 8.11 distinguishes between 'contestable augmentations' and augmentations that are not 'contestable augmentations'. In essence, 'contestable augmentations' are augmentations to the declared shared network:
- 11.1 that are capable of being delivered by a person other than the incumbent DTSO – that is, for which contestability is practically feasible; and
- 11.2 for which the capital cost justifies a competitive procurement process.
- 12 The NEL and the NER require AEMO to conduct a competitive tender process for the construction and operation of 'contestable augmentations' (NEL, section 50F(3); NER, clause 8.11.7).¹
- 13 The NEL and the NER only authorise the incumbent DTSO to construct and operate augmentations to the declared shared network that are not 'contestable augmentations' (NEL, section 50F(1); NER, clause 8.11.5). This is because it is either not practical or inefficient for an augmentation to the declared shared network that is not a 'contestable augmentation' to be constructed and operated by a person other than the incumbent DTSO.
- 14 Clause 8.11.6 of the NER provides that an augmentation to the declared shared network is a 'contestable augmentation' if:²
- 14.1 the capital cost of the augmentation is reasonably expected to exceed the 'relevant limit', which is defined in clause 8.11.3 to be \$10 million; and
- 14.2 the augmentation is a 'separable augmentation'.

¹ 'Contestable augmentations' that are 'funded augmentations', as defined in Chapter 10 of the NER, are an exception to this requirement for AEMO to conduct a competitive tender process (NER, clause 8.11.8). However, this exception is of no present relevance.

² We observe, for completeness, however, that an augmentation to the declared shared network will not be a 'contestable augmentation' if AEMO classifies the augmentation as non-contestable because either (i) the delay in implementation that would result from treating the augmentation as a 'contestable augmentation' would unduly prejudice power system security; or (ii) AEMO does not consider it economical or practicable to treat the augmentation as a contestable augmentation (NER, clause 8.11.6(b)). The classification of a shared network augmentation as non-contestable notwithstanding it falls within the definition of a 'contestable augmentation' in clause 8.11.6(a) of the NER is not within the control of Powercor's distribution business.

- 15 The NER (clause 8.11.3) defines 'separable augmentation' to mean an augmentation that satisfies both of the following criteria:
- 15.1 The augmentation will result in a distinct and definable service to be provided by the contestable provider to AEMO; and
 - 15.2 The augmentation will not have a material adverse effect on the incumbent DTSO's ability to provide services to AEMO under any relevant network agreement.
- 16 Where an augmentation to the declared transmission network is expected to cost over \$10 million and is a 'separable augmentation', that augmentation will be a 'contestable augmentation' and AEMO is required to conduct a competitive tender process for the procurement of that augmentation. Thus, the first limb of the NER definition of 'contestable augmentation' operates to limit the running of an AEMO competitive tender process to augmentations to the declared shared network for which contestability is practically feasible. The second limb of the NER definition operates to limit the competitive tender process to shared network augmentations for which contestability is efficient.
- 17 If Powercor's distribution business required an augmentation to the Victorian declared shared network in order to facilitate the connection of a large customer to its distribution network or to support organic growth on its distribution network, and that augmentation was a 'contestable augmentation', the NEL and the NER would require AEMO to conduct a competitive tender process to determine who would construct and operate that augmentation. If the augmentation were not a 'contestable augmentation', the NEL and the NER provide for the incumbent DTSO – that is, the DTSO that owns or operates the part of the transmission system to which the augmentation will connect – to construct and operate the augmentation. The incumbent DTSO will generally be AusNet but could potentially be a third party, such as Transgrid. Following the construction by it of transmission assets in accordance with any transmission licence granted by the ESC, it could also be Powercor.
- 18 Powercor understands that the ESC is concerned that Powercor's distribution business will award all transmission augmentation work to Powercor's transmission business, if Powercor is awarded a transmission licence. Powercor considers that the NEL and the NER constrain Powercor from doing this in the case of 'contestable augmentations' (i.e. shared network augmentations that are 'separable' and cost more than \$10 million). Accordingly, Part 2 of the tender policy commits Powercor's distribution business to procuring augmentations to the declared shared network in accordance with the applicable requirements of the NEL and the NER.
- 19 As the NEL and the NER do not specify who may construct augmentations to transmission connection assets, it is necessary for Part 2 of the tender policy to address this. In so doing, we have sought to mirror, to the extent practicable, the contestability regime for shared network augmentations.
- 20 Part 2 of the tender policy commits Powercor to conducting a competitive tender process to determine who will construct augmentations to the connection assets that form part of the declared transmission system where contestability is practically feasible. The tender policy establishes this commitment by:
- 20.1 defining a term 'Separable Augmentations' in relation to augmentations to transmission connection assets - this definition is the same as the definition of that term in clause 8.11.3 in relation to declared shared network augmentations except insofar as consequential changes are required for the term to apply in respect of transmission connection augmentations; and
 - 20.2 providing that we will run a competitive tender process to determine who will construct transmission connection asset augmentations initiated by Powercor's distribution business that are 'Separable Augmentations'.
- 21 If Powercor's distribution business required an augmentation to transmission connection assets in order to facilitate the connection of a large customer to its distribution network or to support organic

growth on its distribution network, and that augmentation was a 'Separable Augmentation' as defined in the tender policy, the policy would require Powercor to conduct a competitive tender process to determine who would construct and operate that augmentation. If the augmentation were not a 'Separable Augmentation', the policy would provide for the incumbent DTSO – that is, the DTSO that owns or operates the part of the transmission system to which the augmentation will connect – to construct and operate the augmentation. Accordingly, Powercor would only construct and operate the transmission connection asset augmentation if the augmentation were not a 'Separable Augmentation' (i.e. it were not practically feasible for a person other than the incumbent DTSO to construct and operate the augmentation) and it were the incumbent DTSO.