



Our Reference: SAC17_043

28 April 2017

Dr. Paul Grimes
Secretariat, Review of Victoria's Electricity Network Safety Framework
Department of Environment, Land, Water and Planning
PO Box 500
Melbourne VIC 8002

Electronic submission: delwp.secretariat@delwp.vic.gov.au

Dear Dr. Grimes

REVIEW OF VICTORIA'S ELECTRICITY NETWORK SAFETY FRAMEWORK ISSUES PAPER

CitiPower and Powercor Australia welcome the opportunity to respond to the Department of Environment, Land, Water and Planning (**DELWP**)'s Issues Paper on the Review of Victoria's Electricity Network Safety Framework. We support the review's objective of examining the safety framework and assessing its effectiveness in achieving desired electricity network safety outcomes.

This submission provides our suggestions on each of the areas of interest from your issues paper.

The extent to which the current framework promotes strong leadership of safety cultures and the engagement of the electricity network workforce.

The current safety framework is delivering safe outcomes for Victorian customers at an efficient cost. Under the current safety framework, the safety performance of Victoria has been strong both in comparison to other states and other similar industries in Australia. For CitiPower and Powercor particularly, this has been achieved whilst also offering a high level of reliability and some of the lowest network tariffs in Australia. Our workforce, at all levels, is highly engaged with our core value of 'Live Safely', and our incident rates demonstrate this successful culture. The areas of the industry we see at most risk from a suboptimal safety culture are those involving 3rd parties working near our network. It is this network interaction with 3rd parties that we recommend ESV, and the safety framework, should focus on in order to improve community safety outcomes.

REGISTERED OFFICE

40 Market Street, Melbourne VIC Australia Telephone: (03) 9683 4444 Facsimile: (03) 9683 4499

Address all Correspondence to: Locked Bag 14090 Melbourne VIC 8001

CitiPower Pty Ltd ABN 76 064 651 056 General Enquiries 1300 301 101 www.citipowercor.com.au

Powercor Australia Ltd ABN 89 064 651 109 General Enquiries 13 22 06 www.powercor.com.au

Leading approaches or practices that could be adopted from other electricity safety regulators, or from other sectors, to further improve safety outcomes in Victoria.

An outcomes-based approach to safety regulation is the most efficient way to achieve safety outcomes. Outcomes-based regulation enables Network Service Providers (**NSPs**) to identify the engineering solution which achieves the required safety outcomes at the lowest cost to consumers. The current safety framework generally enables these outcomes, however, appropriate measurement of the outcomes is not applied consistently across our industry. A benchmarking framework should be established through a comprehensive process of industry consultation and with reference to similar models such as those managed by the Australian Energy Regulator (**AER**).

The effectiveness and efficiency of the current electricity network safety framework and, in particular, whether there is an optimal mix of prescriptive and outcomes-based regulation.

Prescription-based approaches to regulation stifle innovation and increase costs to consumers. Prescriptive regulation provides insufficient flexibility for the NSPs to adopt the most efficient solutions, taking account of network characteristics and configurations. While prescriptive regulation may be appropriate in limited situations, NSPs are best placed to identify the most efficient and effective engineering solution using their knowledge and experience of their network. We recommend that the safety framework does not move towards a more prescriptive approach.

A key example of this is our risk-based approach to asset management which involves planning network maintenance and replacement programs based on the probability of asset failure. Applying a risk-based approach to asset management has enabled us to achieve safety and network reliability outcomes with the least cost to customers. The AER's benchmarking demonstrates we and other Victorian NSPs are among the most efficient in Australia. It would be inefficient to move away from a risk-based approach to asset management without substantial evidence that the current approach is not delivering a safe and reliable network for our customers. We recommend the safety framework does not move towards a more deterministic approach to asset management as this would increase costs to customers without providing commensurate improvements in safety or reliability outcomes.

In recent years, regulation has become more prescriptive, particularly in relation to implementing the findings of the Victorian Royal Bushfire Commission (**VBRC**). A continued trend towards more prescription-based regulation will unnecessarily increase costs to customers.

There is trade-off between safety risk and affordability for customers which must be taken into account by all parties in the safety framework. Reducing the level of safety risk inevitably involves investments in network systems or processes which require NSPs to incur costs. These costs are ultimately passed through to consumers via network tariffs. It is essential that DELWP and the regulators are cognisant of the safety affordability trade-off. A framework that requires NSPs to mitigate all safety risks to the lowest level possible, without consideration of affordability, would lead to exorbitant costs to customers. It is recommended that any changes to the safety framework or

Victorian Government policy initiatives are fully costed, including customer affordability assessment, before implementation.

The electricity safety programs delivered by DELWP and the intersection of the functions managed by the Department, ESV and other Victorian Government agencies.

An effective outcome-based approach to safety regulation involves the following roles and responsibilities:

- the policy maker (the Victorian Government on advise of DELWP) specifying through regulation the desired safety outcomes to be achieved;
- NSPs assessing and implementing the engineering solutions which best achieve the safety outcome at an efficient cost for customers;
- the safety regulator, Energy Safe Victoria (**ESV**), ensuring that NSPs achieve the safety outcomes specified in regulation through assessing and approving NSPs proposed approach for achieving safety outcomes (i.e. assessing NSPs' Electricity Safety Management Scheme), monitoring safety outcomes, incentivising safety performance and enforcing safety breaches; and
- the AER ensuring that NSPs are appropriately funded and incentivised to achieve safety outcomes at efficient cost.

There are a number of examples of where these roles and responsibilities have not been clear or have not been consistently applied. We recommend strengthening the role of ESV and refocusing DELWP on defining safety outcomes rather than defining methods or solutions.

The interactions between the economic regulatory and safety regulatory regimes.

It is essential that regulatory instruments and processes which impact on the delivery of safety outcomes are aligned, for example:

- The AER makes a determination which sets NSPs allowed revenues for five year regulatory control periods. To reduce uncertainty regarding NSPs regulatory obligations, we recommend that reviews of safety regulations occur before NSPs are required to submit their revenue forecasts to the AER (e.g. the Electric Line Clearance Regulations).
- NSPs are subject to the Victorian Electricity Distribution Code (**EDC**) which is administered by the Essential Services Commission (**ESC**). There is no clear process or responsibility for ensuring the technical standards in the EDC are aligned with changes in safety regulations. The separation of the technical standards from the responsibility of the safety regulator is not conducive to consistent regulation. We recommend technical standards be administered by ESV, rather than the ESC.

The capacity of the current safety framework to manage and adapt to the electricity network of the future.

The current and future transition to more contestable services, such as the installation and operation of distributed energy resources and metering services have serious electrical safety risks, particularly through their interaction with the network. It is important that the same safety standards are applied irrespective of the party undertaking the work. This is an area of ESVs role that we recommend is further strengthened.

The effectiveness of the resources, tools and approaches utilised by ESV to monitor, assess and enforce compliance with the safety framework.

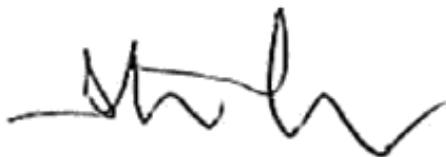
Whilst there is no benchmark framework for safety outcomes, a considerable amount of data and reporting is required by ESV. There is opportunity for this reporting to be streamlined further to reduce administrative costs and ensure there is a tangible benefit to safety outcomes.

Current safety performance

We have embedded a safety culture within our day to day operations at all levels and in all areas across our business. We lead the way in safety performance compared to other states and industries in Australia, and have continued trends of improvement. The current outcome-based safety framework is the right approach for our industry and any further move toward a prescriptive framework will not be in the best interests of the Victorian community.

We are currently gathering a range of further information and data that will assist your review and will provide this to you in the coming week. Should the Secretariat have any queries regarding this submission, please do not hesitate to contact Matt Thorpe (03) 9683 4357, or mthorpe@powercor.com.au.

Yours sincerely,



Steven Neave
General Manager Electricity Networks, CitiPower and Powercor