



Timely negotiated electricity connections - Issues paper

Contents

1	SUMMARY	4
2	DELIVERING ON OUR COMMITMENTS	5
2.1	The Service Improvement Commitment	5
2.2	Our achievements under the SIC.....	5
3	DELINEATING THE CONNECTION TYPES	9
3.1	New residential housing estates are delineated from other connections.....	9
3.2	Connections process for greenfield residential housing estates is unique	10
3.3	We support a broader review of the regulatory framework for connections	10
4	COLLABORATION WITH INDUSTRY	12
4.1	Approach A is a proportionate and appropriate response.....	12
4.2	Approach B provides an increased level of transparency	12
4.3	Approach C proposes ongoing participation from the ESCV	13
4.4	Approach D may be too prescriptive and remove innovation	16
4.5	A hybrid approach is proportionate and will deliver results	16

1 Summary

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Essential Service Commission of Victoria's (ESCV) Issues Paper on timely negotiated electricity connections.

As an essential services provider, we play a critical role in supporting Victoria's growth, including through connecting new or redeveloped housing and industrial sites. As our State faces significant economic challenges from the current COVID-19 pandemic, we know how important keeping the housing industry moving forward is to supporting jobs and growth.

We understand the importance of making the connection process as efficient as possible while retaining safety standards. We have delivered on our service improvement commitments that we made to industry and the ESCV in 2018. This has removed delays in connecting new developments in Melbourne's greenfield areas to distribution networks, while retaining our focus on safety. A typical timeline for a new connection is 193 days from the time the developer lodges an application with us to receiving the Statement of Compliance — where we are only involved for 23 days at various stages of the connection process. Over the last 12 months the overall timeframe from initiation to Statement of Compliance has reduced from 364 to 193. We have reduced times from 67 to 23 days and the development industry has reduced from 297 to 170 days. Where there are still delays in the overall process, they are unlikely to be attributable to us.

Through our service improvement commitments, we have streamlined processes, changed our operating structures to better service this sector and assisted developers and their contractors to improve the accuracy and clarity of the information needed to progress their applications. Unfortunately, we continue to identify quality and safety breaches during our auditing process which can delay projects. We wish to emphasise the need for improved training and education for both contractors and sub-contractors that will allow them to deliver high-quality and safe infrastructure.

We continue to work collaboratively with industry to review and improve our connections process for new housing developments. We do not consider that an issue remains in our connections process, nor do we consider there is a compelling case for further regulation. However, to provide comfort to developers that we will continue to focus on improving and better managing these connections, we support:

- formal performance reporting, which at a minimum would include all current reporting
- ongoing meetings with industry.

Reporting and regular meetings will increase the transparency on the timeliness of negotiated connections for greenfield residential housing estates.

2 Delivering on our commitments

- The Service Improvement Commitment (SIC) was voluntarily agreed to by distributors in 2018
- It has been effective in improving the timeliness of negotiated connections on the distributors' side
- We have delivered on the SIC by achieving our targets and reshaping the project timeline

2.1 The Service Improvement Commitment

In 2018, the Minister for Finance requested the ESCV to review why there were delays in connecting new developments in Melbourne's greenfield areas to distribution networks. The ESCV found that whilst regulatory frameworks are not the main driver of delays to connecting new developments, their effectiveness could be improved with targeted measures. The advice further found that other contributing factors to delays included:

- inadequate customer focus by distributors
- rapid growth in lots construction, and resource constraints across the sector
- quality of works
- inefficient auditing practices.¹

ESCV asked distributors to agree to implement a Service Improvement Commitment (SIC) which sought to deliver on a range of initiatives designed to improve the timeliness of the connection process.

Under the SIC, distributors agreed to:

- improve stakeholder consultation and communications, including significant investment in IT systems so developers can track their projects more closely
- improve transparency about the negotiated connections process through regular performance reporting
- review audit processes and improve problematic practices
- establish a technical standards committee to review the way standards are managed across the sector
- increase resourcing required to undertake negotiated connections work.

2.2 Our achievements under the SIC

We have undertaken a large number of investments to deliver on the SIC, including:

- upgrading and expanding our online portal (mySupply) to meet the needs of our developer customers, where the portal allows developers greater visibility and access to the progress and timeframes for their connections
- upgrading our online portal to offer a transparent view of a project including turnaround times for all completed phases and clear line of sight as to next steps, as well as allowing developers to receive copies of the audit reports
- creating a dedicated team to focus on greenfield residential housing estate projects
- reviewing our negotiated connection policies and procedures

¹ ESCV, Advice on electricity regulation – timely electricity connections, 7 September 2018.

- introducing the ability for developers and their design contractors to undertake master planning
- participating in the Victorian Electricity Supply Industry (VESI) technical standards harmonisation committee
- reviewing our auditing process, including stopping our ‘walk-off’ policy, increasing auditing resources, allowing for real time fixes and setting public performance measures
- increasing resourcing in the connections process
- setting up key performance indicators (KPIs) to measure performance against targets with 6 monthly analysis and actions to address any factors where targets are not met
- publishing our initiatives and progress on our website.²

Connecting and energising a home in a new residential housing estate occurs over several stages. The key stages where we are involved are shown below, together with the target timeframes agreed with industry.

Figure 1: Our performance against our SIC targets

Stage	Description	Target timeline	Our performance Q1 2020
Master plan review	Master plans show how the new development connects to surrounding developments.	10 days	11 days
Design review	Design plans show amongst other things how each lot is connected to the network and the clearances between the electrical infrastructure and other services	20 days	15 days
Construction audit	Review of the accuracy of the constructed electricity network to the approved plans and designs and other safety standards	5-8 days	5.5 days
Practical completion	Once the construction audit passes and the works are granted practical completion a statement of compliance can be issued	10 days	1.7 days
Construction tie-in	Involves connecting the newly constructed assets to the existing electrified network.	20 days	20 days

Source: Powercor

The table shows we have achieved four of our five targets under the SIC. The remaining target, the master plan review timeframe, is on-track to be delivered in 2020. This review involves the developer designing the overall distribution network for the development, which we review and approve based on our requirements for the high voltage (HV) feeder and nearby developments. The master plan review timeframes were impacted in the first quarter of 2020 by the COVID-19 pandemic as we were required to transition our planning engineers to work from home.

2.2.1 We have reshaped the project timeline

The project timeline for connecting new developments has undergone significant change since 2019.

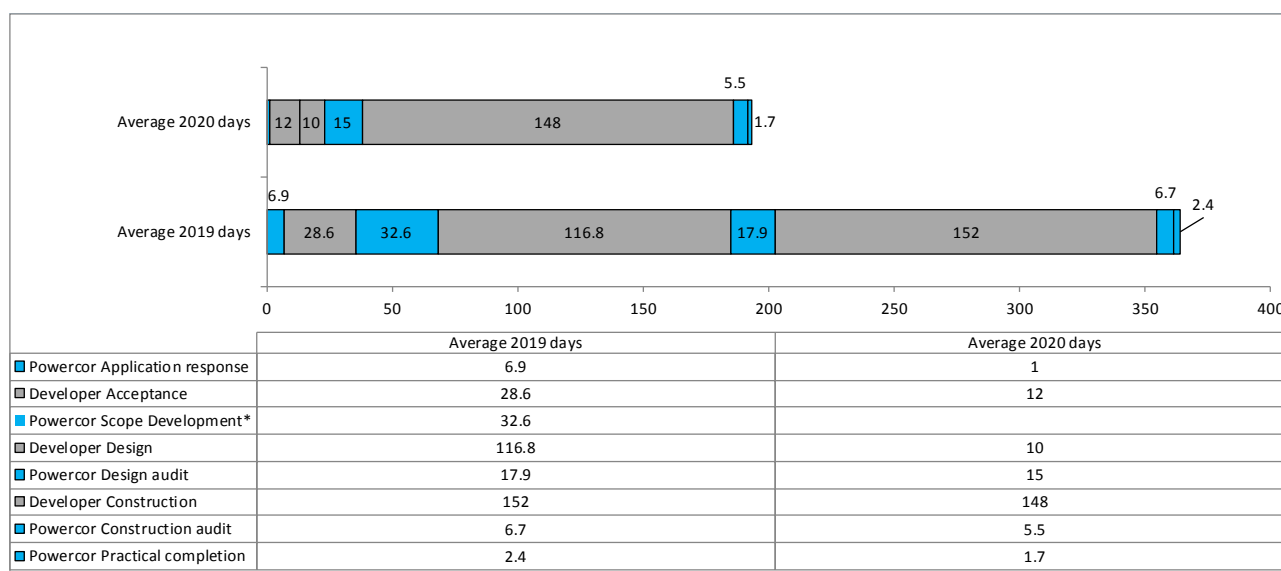
² <https://www.powercor.com.au/industry/supplier-resources/contestable-works/whats-new/>

In 2019, a typical project took on average 364 business days from the time the developer lodged the application to issuing the statement of compliance. Of that timeframe, we were involved for approximately 66.5 days of the connection process.

In 2020, a typical project timeline takes around 193 business days from the time the developer lodges an application to receiving the Statement of Compliance. Now, we are involved for only 23 days of the connection process (please see figure 2 below).

A large portion of this improvement is an outcome of the Master Plan review, which we undertook as part of the SIC. In this review, the development of the scope was determined to no longer be on the project critical path and design plan development is now also able to occur in parallel with other activities.

Figure 2: 2019 vs 2020 project timeline by stage



Source: Powercor

Note: *There is no data available for the scope development stage in 2020 because in the new process the scope development has been subsumed into the master planning and developer design phases. This is part of what has enabled the shortening of the timeline.

2.2.2 Feedback from developers

Since implementing the SIC in 2018, we continue to receive positive feedback from developers on our timeframes and performance in connecting residential greenfield estates.

We recognise that there are mixed views on what we do well and where we can improve. However, we were grateful for the recent positive feedback that we received which indicates we are on the right track. Extracts from the emails from developers are shown below, with the companies' identities redacted.

"I would like to take some time to bring to light the exceptional service that Powercor have provided the [X] Estate project.

The professionalism, assistance, advise, approval timeframes and expertise has been extraordinary.

Everyone in the entire Powercor team has gone above and beyond especially in these difficult times."

- Developer X

"It gives me great pleasure in giving really positive feedback to our senior managers in our business about the strong relationships we have with Powercor, and all the great work your team does.

As I have mentioned in the past, our managers often sit on industry boards and provide feedback about what aspects of development are performing well and what is not working as well as it could, and authorities are regularly a touch point that causes delay.

I recently used [X] as a great example of Powercor helping with what was an extremely tight time frame, and how well the team performed.

- Developer Y

Upon request, we are able to provide the original copies of these communications to the ESCV.

3 Delineating the connection types

- Connections for new residential housing developments in greenfield areas are clearly distinguishable and separately tracked in our IT systems compared with other negotiated connection types
- This review should be limited to greenfield residential housing estate connections
- We support a broader review of the regulatory framework for connections (including greenfield residential housing estate connections and other negotiated connections) where all relevant stakeholders are appropriately consulted

The ESCV Issues Paper discusses negotiated connections. There are many different types of negotiated connections that we provide to customers, of which connections for new housing estates are one subset.

This section demonstrates that the connections for new housing developments are clearly distinguishable from other negotiated connection types.

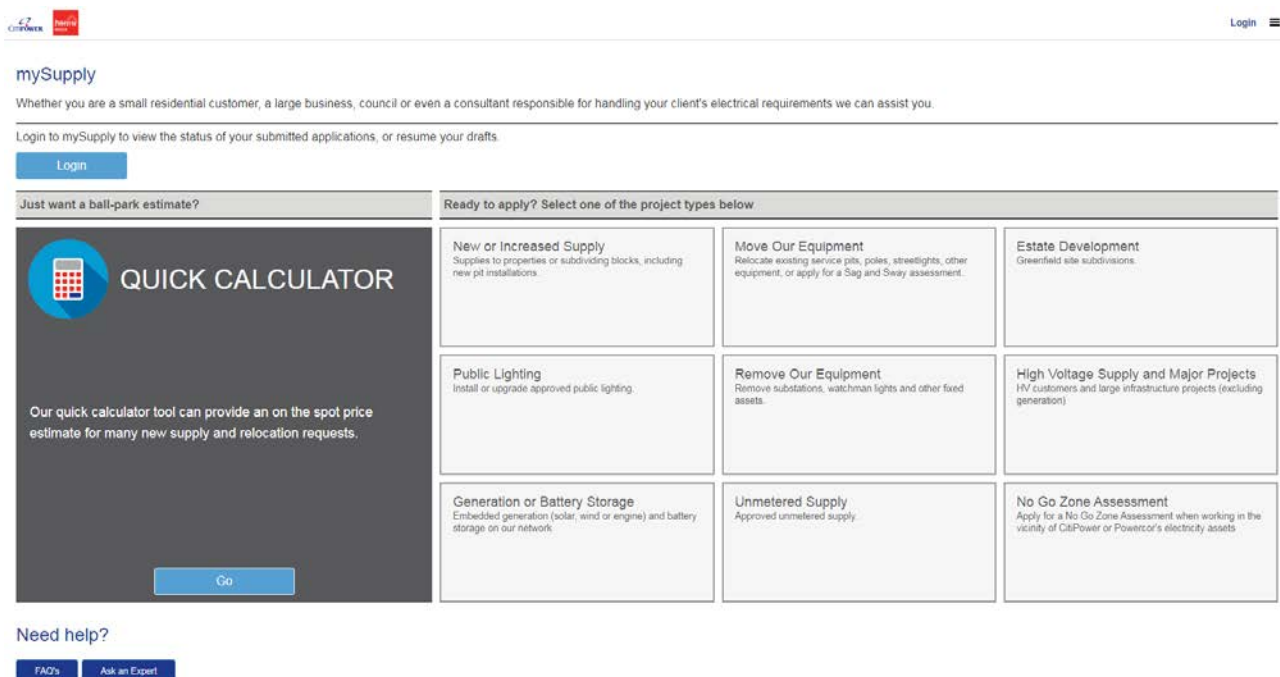
Over the longer term, we support a broader review of the regulatory framework for connections by the ESCV.

3.1 New residential housing estates are delineated from other connections

In our IT systems, connections for greenfield residential housing estates are lodged, assessed and tracked separately from other negotiated connection requests.

CitiPower and Powercor uses a portal (mySupply), which has a specific section where connection applicants can request a greenfield residential housing estate connection. Applicants for these connections are able to select "estate developments" (see figure below) in the portal to commence the connection process. We have created a dedicated team who receive and action estate development applications.

Figure 3: CitiPower and Powercor mySupply customer portal



Source: CitiPower and Powercor mySupply portal

CitiPower and Powercor, as well as developers and contractors, are able to track and manage the connections process through the mySupply portal.

United Energy undertakes very few residential housing estate connections, and has only completed six for the 2020 year-to-date. United Energy tracks these particular connections separately from other negotiated connection types within the IT system.

3.2 Connections process for greenfield residential housing estates is unique

Greenfield residential housing estate connections can be completed by the distributors or by a contestable third-party provider. For CitiPower and Powercor, most of these connections are contestable however various stages of the connection process can only be completed by us.

The key steps in the CitiPower and Powercor process to make supply available in a greenfield residential housing estate, whether the connection is contestable or not, are as follows:

- we receive connection application through mySupply portal
- network master planning for the development is undertaken (and if prepared by a third-party, must be approved by us)
- electrical design for the development is undertaken (and if prepared by a third-party, must be approved by us)
- construction for the residential housing estate commences
- a network compliance audit is undertaken by us
- we provide a notice of consent to the local council which allows the developer to seek the land titles from the Titles Office (and receive payment from homeowners)
- electrification of assets (tie-in process).

Where a third-party has constructed the assets, we make a payment to the developer for the cost of assets reflecting the cost that we would have incurred had we constructed them ourselves. We then take ownership of the assets and become responsible for operating and maintaining that electricity network to the end customer.

The process for greenfield residential housing estate connections involves many steps and interactions between third-parties and us. No other negotiated connections process is similar.

3.3 We support a broader review of the regulatory framework for connections

We consider connections for new housing developments are clearly distinguishable from other negotiated connection types. Developers who are involved in these particular negotiated connections are likely to participate in this consultation by the ESCV. We are concerned if the ESCV intends for this review to encompass more than just new connections for greenfield residential housing estates, that not all impacted stakeholders would participate in the consultation.

The ESCV has recognised that the connections framework in Victoria has “some areas of inconsistency, ambiguity and overlap across the State and National regulatory instruments.”³ The ESCV has further noted that it intends to review the negotiated connections framework in 2020-2021. We support such a review and consider that it is appropriate to review the entire framework as one, rather than a piecemeal review of

³ ESCV, Advice on electricity regulation – timely electricity connections, 7 September 2018, p. 10.

greenfield residential housing estate connections now and the remainder of the connections framework later in 2020 or in 2021.

In our September 2019 response to the ESCV Issues Paper on the review of the Electricity Distribution Code, we advocated for a review of the connections aspect of the Code. For example, we consider the electricity industry guidelines 14 and 15 are no longer required given the introduction of Chapter 5A in the National Electricity Rules.

4 Collaboration with industry

- Continued collaboration with industry is an appropriate outcome to ensure connection timeliness continues to improve, and this can be delivered through a combination of approaches A, B and C
- Design houses have made minor improvements with respect to the quality of their work, however this is still lacking, proven by the low pass rate during design review
- Developers and their contractors must do more to improve on the quality of installed electrical assets which will in turn improve their audit pass rates
- We continue to improve and innovate by undertaking trials on process improvements and assisting developers and designers with their quality

The ESCV's Issues Paper outlined four approaches to maintain distributors' focus on improving the timeliness of negotiated connections.

In this chapter, we discuss the four options outlined by the ESCV to maintain distributors' focus on improving the timeliness of negotiated connections. We set out why a combination of approaches A, B and C delivers a proportionate and appropriate outcome for industry.

4.1 Approach A is a proportionate and appropriate response

Approach A represents the status quo, and would require continuity in reporting for distributors coupled with a further opportunity to improve reporting in collaboration with developers.

We consider that given the substantial improvements we have made since the SIC, this option would ensure timeliness of connections is maintained and improved upon. Working together, we and developers have achieved a 47% reduction in the aggregate development timeframe as a result of the collaboration. Considering this result, it is not clear why anything above and beyond Approach A is required.

4.2 Approach B provides an increased level of transparency

Approach B balances the need for transparency with what distributors can provide in terms of capacity and financial requirements. We are confident in our performance and continued improvements for greenfield residential housing estate connections and as such we are happy to accept an obligation to report publicly.

Approach B suggests that we report every six months. It would require reporting of KPIs in one of two ways:

- (a) setting of maximum timeframes
- (b) setting of timeframes that applies to a target proportion of negotiated connection stages

The setting of maximum timeframes would not be appropriate, as it fails to take into account that there are factors beyond our control that may contribute to a delayed connection. For example, the quality of the workmanship of the developer's installed electrical assets may drive a longer timeframe than a nominal maximum timeframe for the audit stage. Setting timeframes is a prescriptive approach that may inhibit innovation.

To address this issue, a 'stop-the-clock' provision would be required in the regulations to clearly identify the timeframes relevant to the distributor. Establishing such systems would take time and add cost. As such the ESCV would need to ensure that costs of this regulation do not outweigh the benefits.

While we are already committed to engagement with industry in the contestable works space,⁴ we are willing to further commit to regular consultation and collaboration with industry, including identifying the appropriate form of KPIs that align to the outcomes sought by both. Through engagement with industry, these KPIs could be flexible and be changed over time to emphasise improvement areas and reflect changes in approach or innovations.

Approach B would require the results of performance reporting to be published on our website. We already publish this information.⁵

4.3 Approach C proposes ongoing participation from the ESCV

Approach C proposes including an overarching obligation in the Electricity Distribution Code that requires distributors to have appropriate governance and management practices overseeing negotiated connections processes. This overarching obligation could be complemented by separate guidance from the ESCV on the types of practices that should be adopted and implemented by distributors. This may include:

- establishing forums including developers to discuss and resolve matters
- reviewing processes for complaints and dispute resolution
- publishing six monthly performance reports.

This approach may also require written confirmation from the senior management of each distributor that these activities had taken place.

We do not consider guidance from the ESCV is required. Rather, we consider that the best approach is to discuss with industry areas where further transparency could be of benefit and identify areas for ongoing improvement.

The sections below discuss greater transparency that could be provided for the design and electrical construction audit processes to enable further improvement, in particular:

- top-performing design houses, which may incentivise better quality designs and greater use of better performing design houses to improve overall timeliness of connections
- developer and their civil and electrical contractor performance which could incentivise developers and their contractors to improve their audit pass rate performance, and timeliness, for greenfield residential estate connections.

4.3.1 Improving design house transparency

The purpose of the design audit is to ensure that the asset being constructed is built to appropriate safety standards. Safety is an important element of the design audit, and there are obligations for all designers to meet legislative "safety in design" requirements.⁶

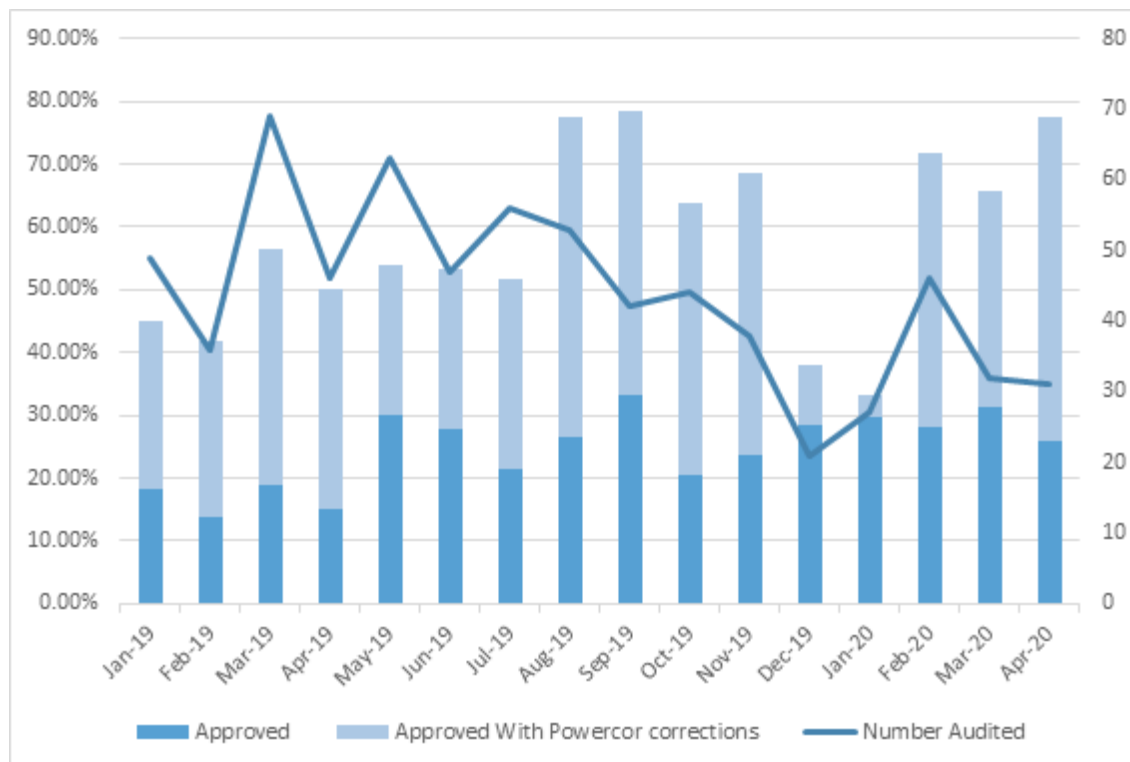
Despite the significant improvement distributors have made to the timeliness of connections, designers are continuing to perform poorly, leading to inadequate design quality being submitted to us by developers. This has a flow-on effect of holding up the connections process due to designs having to be reworked and resubmitted after failing the design audit. In 2019 and 2020 YTD, only 450 out of 1191 designs submitted passed audit in the first instance, as shown in the figure below.

⁴ For examples of our industry engagement, see: <https://www.powercor.com.au/industry/supplier-resources/contestable-works/whats-new/>

⁵ <https://www.powercor.com.au/industry/supplier-resources/contestable-works/whats-new/>

⁶ Section 28, Occupational Health and Safety Act 2004.

Figure 4: Design audit pass rates January 2019 to April 2020



Source: Powercor

Increased transparency over designs will promote faster timeframes as more submitted designs will pass the design audit at the first attempt. Those that don't pass have fundamental design flaws and need to be corrected and resubmitted.

Greater transparency of design houses could then lead to innovative approaches where we offer improved timelines. For example, we could reduce timeframes by allowing high performing design houses to be exempt from the design check, which normally takes 15 days. Indeed, while the overall performance is poor, there are examples of consistent and strong quality by some design contractors. By allowing high performing design houses to be exempt from the design check would introduce a streamlined approach with certainty of quality. This would represent a significant decrease in overall time period for these high performing designers. We note this exemption to the design check would be conditional on the performance of that design house and would be revoked should its performance decline over a period of time.

4.3.2 Increased transparency of electrical construction audit phase

The final construction audit is a key step in ensuring the network that we are buying from the developer meets the necessary safety requirements, is properly constructed and meets all legislative and technical requirements. It is appropriate that we conduct thorough due diligence for the safety on behalf of all electricity customers.

Developers have not improved their audit pass rates since 2018. The continuing poor quality of civil work including electrical installation leads to audit failures that are driving the longer auditing timeframes.

In the construction audit, a score out of 100 is awarded. Points are deducted for major, medium and minor non-compliances. A score of 100 is a pass. If there are non-compliances and we can accept photographic evidence of a fix, we will not reaudit - this is called a rectification. Otherwise, a score below 100 is a fail.

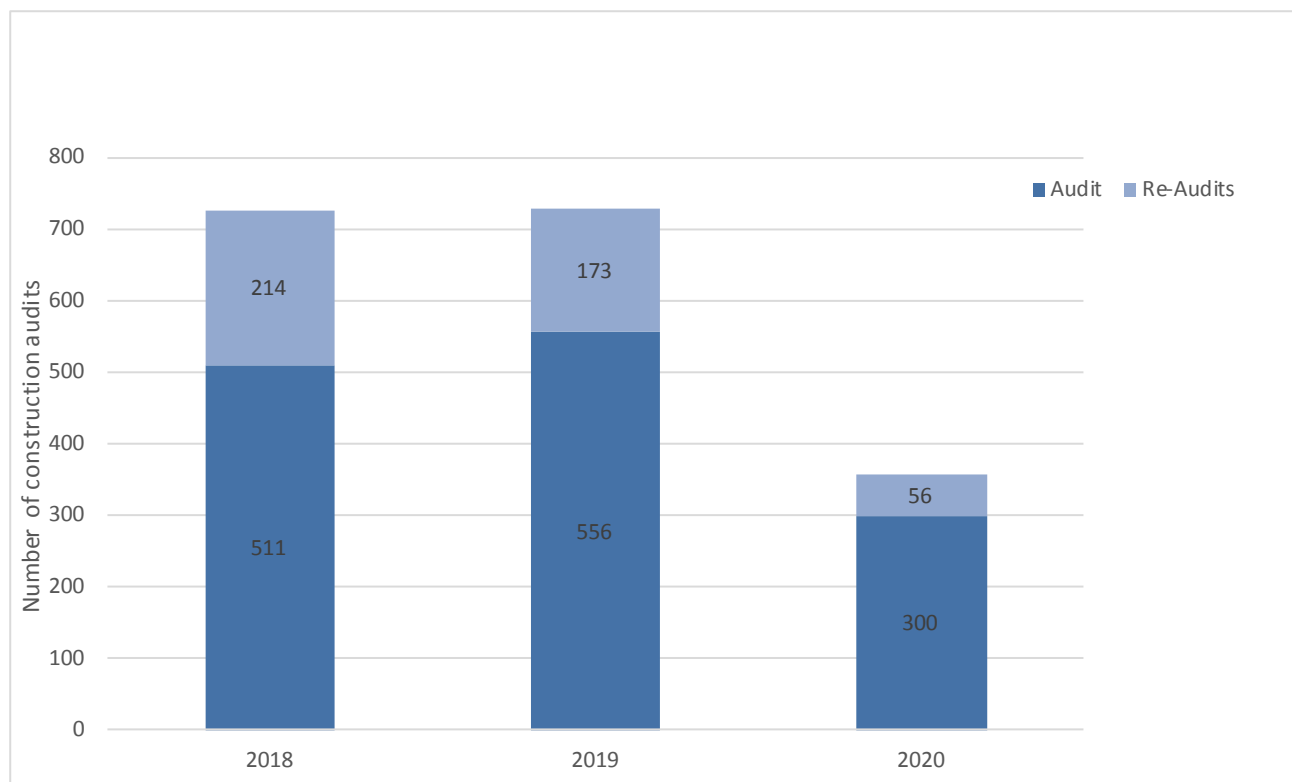
We used to have a 'walk away' policy where if an audit score was less than 90, we stopped the audit and only continued once the issue was fixed. In 2017 and 2018 we had a large amount of re-audits that were directly attributable to this policy. We have revoked this policy and now complete a more extensive first audit. We also allow for real time fixes or photographic evidence of fixed items rather than re-audit in certain circumstances however we have not seen a commensurate reduction in the number of re-audits.

Further, changes to our auditing practices have included the introduction of the “support auditor system” whereby two auditors conduct the audit as opposed to one. This saw a slight reduction (6%) in the number of re-audits in 2019. The support auditor system was introduced to:

- reduce intimidation of auditors by contractors, as the two auditors can support each other
- increased thoroughness of audits.

Since changing this process, the volume of re-audits have been around 24% – 26% and have reduced further since the beginning of April 2020 due to changes implemented in response to COVID-19 pandemic. These changes involve auditors staying on site for as long as possible to support developer customers rectify non-compliances to allow us to minimise further site visits. This is shown in the figure below.

Figure 5: Developer construction audit performance 2018, 2019 and YTD 2020 for Option 2 connections



Source: Powercor

We could increase the transparency associated with audits to include:

- publication of internal contractor performances
- reduced audit scope where contractors engaged on a project have superior ratings.

We have an internal contractor rating system where we rate project managers, electrical contractors and civil contractors. The rating awarded will be an A, B, C or D, where A is superior and D is underperforming. We track

these and issue ratings certificates every quarter. Contractors then have the opportunity to improve their performance based on the previous quarter's result.

If a contractor has a high rating, we minimise the excavations we do as part of the construction audit due to the trust we have in that contractor who has historically performed well, therefore serving to speed up the construction audit. We propose as part of our commitment to transparency to publish the contractor ratings every quarter.

4.4 Approach D may be too prescriptive and remove innovation

Approach D sets out regulated timeframes to provide developers with more certainty about how long distributors are likely to take to complete stages or steps of the negotiated connections process. These timeframes could consist of:

- (a) setting of maximum timeframes for each step of the process where penalties apply for failure to achieve these timeframes
- (b) setting of yearly targets where all connections on average across a year meet a maximum timeframe.

First, we note that the purpose of negotiated connections is to recognise the different needs of developers. Currently, many of the connections have their timeframes negotiated to meet the needs of the customer. If timeframes are regulated, we may be unable to customise our processes for smaller or less complex connections.

Second, regulated timeframes would inhibit innovation in approaches to managing connections. Today we work with developers to continuously make improvements to the connection process. A regulated timeframe would create a default position that would discourage all parties from further engagement and innovation.

Finally, we note that to ensure we meet these regulated timeframes, we may need to share greater risks associated with a connection with the developer, particularly for more complex jobs. This may involve extending the warranty (a defect liability period) associated with the distribution asset which we purchase from the developer, to provide us with comfort that the asset we are buying is safe and of appropriate quality.

4.5 A hybrid approach is proportionate and will deliver results

We propose a hybrid approach which combines elements of several of the ESCV's proposed approaches. This includes:

- mandating public reporting by distributors
- mandating ongoing meetings with industry.

We note we already participate in a consultative committee with developers and the Urban Development Institute of Victoria (UDIA), which we chair and co-ordinate. In addition, we could hold regular meetings with industry to look to work towards adopting elements of Approach C. We would propose the composition of these meetings to be:

- one representative from UDIA
- two representatives from larger developers
- two representatives from smaller developers
- one representative from an audit house
- one representative from the Victorian Government

- one representative from each distributor, plus a chair from a distributor.

These proposed meetings between distributors and industry would foster further collaboration and allow the overall industry to work towards more timely connections for greenfield residential housing estates.