

Regulatory Test - Consultation and draft recommendation report

Distribution Network Limitations in the Stanthorpe Area

8 May 2014

Ergon Energy Corporation Limited

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1. EXECUTIVE SUMMARY

Ergon Energy Corporation Limited (Ergon Energy) is responsible (under its Distribution Authority) for electricity supply to the Stanthorpe area in southern Queensland. We have identified limitations in the electricity distribution network supplying the Stanthorpe area. The loads on Ergon Energy's subtransmission network in the Stanthorpe area have progressively increased such that augmentation is required if reliable supply is to be maintained.

The Stanthorpe area is presently supplied by the Pozieres 33/11kV and Stanthorpe Town 33/11kV substations. These substations are supplied from Stanthorpe Bulk Supply 110/33kV substation, which is fed via a single overhead feeder from Warwick T058 110/33kV substation. This feeder has a capacity of 24.4MVA. If this line is out of service, up to 7MVA of load in the Stanthorpe area can be supplied by the 33kV network at the present time.

The combined peak load of Stanthorpe Town and Pozieres substations is approximately 14MVA. In case of an outage on the Warwick-Stanthorpe line, only 7MVA of load can be supplied, leaving some energy unserved.

To reduce the risk of customer supply outages to the Stanthorpe area Ergon Energy needs an additional minimum of 4MVA capacity at 11kV to be provided to this area. This size has been matched to expected load requirements within Ergon Energy's typical 10 year planning horizon.

In order to reduce the risk of losing electricity supply to customers in the Stanthorpe area corrective action should be completed before summer 2014/15. A decision about the selected option is required by 30 June 2014 if any option involving significant construction is to be completed by November 2014.

Ergon Energy published a Request for Information relating to this emerging network constraint on 14 November 2013. Three submissions were received by the closing date of 23 January 2014.

Four feasible solutions to the network constraint have been identified:

- | | |
|----------|---|
| Option 1 | Network Solution – Install Capacitor Bank |
| Option 2 | External Party A – Load Curtailment & Customer Generation |
| Option 3 | External Party B – 4.4MW of Diesel Generation |
| Option 4 | External Party C – 4.8MW of Diesel Generation |

This is now a Consultation and Draft Recommendation where Ergon Energy provides both economic and technical information about possible solutions, and our recommended solution, being Option 1, to install a high voltage capacitor bank at the T60 Stanthorpe bulk supply substation by October 2015.

Submissions in writing are due by 16th June 2014 and should be lodged to:

Attention: Network Planning and Strategy

Email: regulatory.tests@ergon.com.au

Updated information will be provided on our web site:

<http://www.ergon.com.au/community--and--our-network/network-management/regulatory-test-consultations>

For further information and inquiries please submit to the email address above.

2. INTRODUCTION

Ergon Energy has identified limitations in the electricity distribution network supplying the Stanthorpe area in southern Queensland.

When a distribution network service provider proposes to establish a new large distribution network asset to address such limitations, it is required under the National Electricity Rules (NER) version 53 clause 5.6.2(f) to consult with affected Registered Participants, AEMO and Interested Parties on possible options to address the limitations. These options may include but are not limited to demand side options, generation options, and market network service provider options.

Under clause 5.6.2(g) of the NER v53 the consultation must include an economic cost effectiveness analysis of possible options to identify options that satisfy the Australian Energy Regulator's (AER) Regulatory Test, while meeting the technical requirements of Schedule 5.1 of the NER.

The Consultation and Draft Recommendation in this Paper is based on:

- the assessment that under a network contingency situation some customers in the Stanthorpe area may be without a power supply.
- the Request for Information consultation undertaken by Ergon Energy to identify potential solutions to address the distribution network limitations; and
- an analysis of feasible options in accordance with the AER's Regulatory Test.

This project has been considered under the reliability limb of the Regulatory Test as the service standards linked to the technical requirements of Schedule 5.1 of the NER and Ergon Energy's licence conditions are unable to be met, as detailed in Section 5 of this report.

This project was included in the Ergon Energy Distribution Annual Planning Report 2013/14 to 2017/18.

3. BACKGROUND & REASONS AUGMENTATION IS REQUIRED

3.1. Background

If technical limits of the distribution system will be exceeded and the rectification options are likely to exceed \$10M, Ergon Energy is required under the NER¹ to notify Registered Participants,² AEMO and Interested Parties³ within the time required for corrective action and meet the following regulatory requirements:

- Consult with Registered Participants, AEMO and Interested Parties regarding possible solutions that may include local generation, demand side management and market network service provider options⁴.
- Demonstrate proper consideration of various scenarios, including reasonable forecasts of electricity demand, efficient operating costs, avoidable costs, costs of ancillary services and the ability of alternative options to satisfy emerging network limitations under these scenarios.
- Ensure the recommended solution meets reliability requirements while minimising the present value of costs when compared to alternative solutions⁵.

Ergon Energy is responsible for electricity supply to the wider Stanthorpe area (under its Distribution Authority) and has identified emerging limitations in the electricity network supplying the Stanthorpe area. The load on Ergon Energy's supply network in this area has progressively increased such that augmentation is required if reliable supply is to be maintained.

3.2. Purpose of this “Consultation and Draft Recommendation”

The purpose of this Consultation and Draft Recommendation is to:

- Provide information about the existing distribution network in the Stanthorpe area.
- Provide information about emerging distribution network limitations and the expected time by which action must be taken to maintain the reliability of the distribution system.
- Provide information about options identified and considered.
- Explain the process (including approach and assumptions) and the AER's Regulatory Test used to evaluate alternative solutions, including distribution options.
- Recommend Ergon Energy's preferred solution.

¹ Clause 5.6.2(f) NER v53

² As defined in the NER

³ As defined in the NER

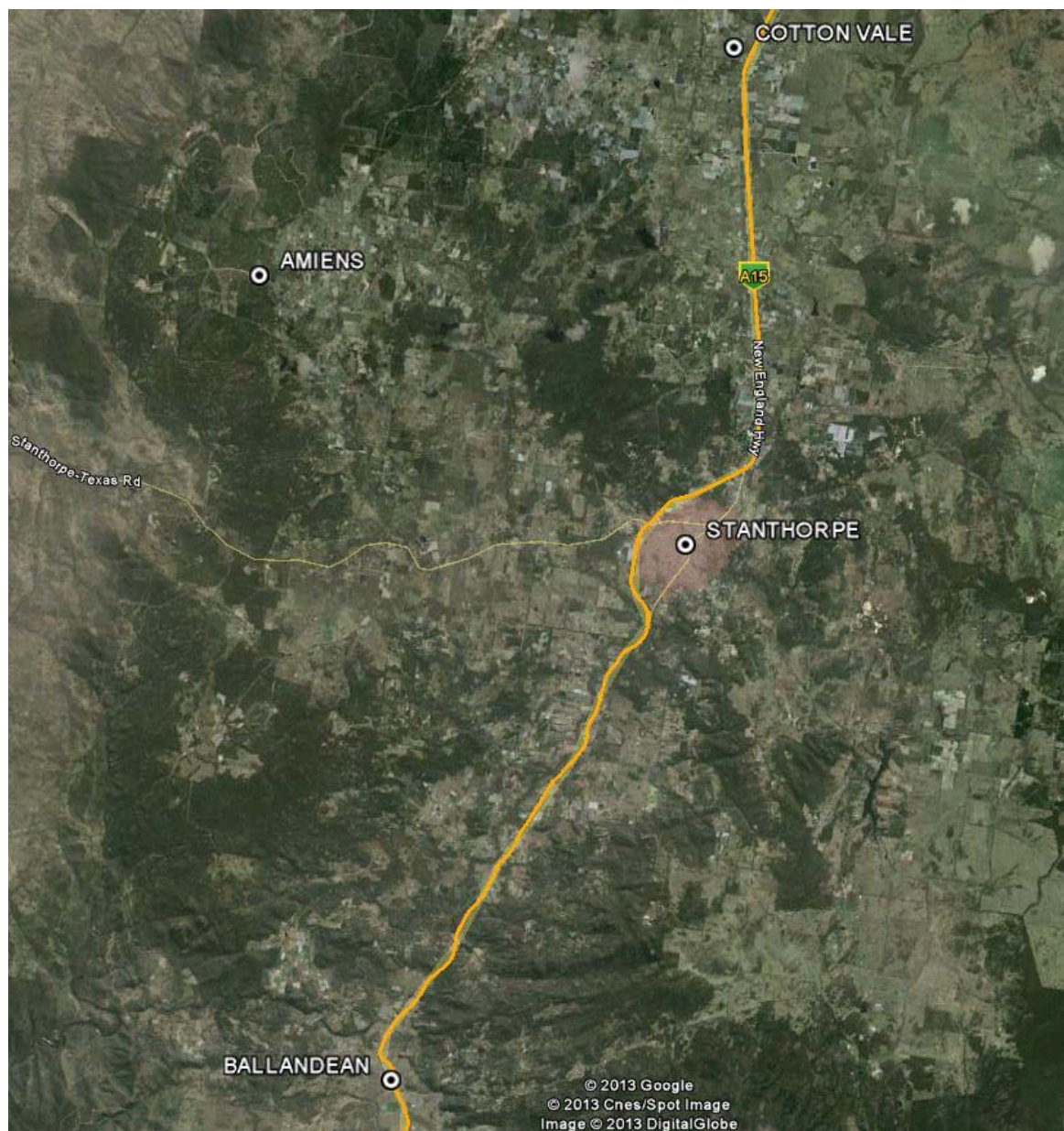
⁴ NER v53 clause 5.6.2(f)

⁵ In accordance with the AER's Regulatory Test Version 3, November 2007

4. EXISTING SUPPLY SYSTEM TO THE STANTHORPE AREA

4.1. Geographic Region

The geographic region covered by this Consultation and Draft Recommendation report is broadly described as the Stanthorpe area as shown on the map below.



4.2. Existing Supply System

Stanthorpe T60 Bulk Supply substation is supplied via a single 110kV line from Warwick T58 Bulk Supply substation. From here, supply is distributed to the Stanthorpe area.

Stanthorpe, Ballandean, and the surrounding area 11kV customers are supplied by Ergon Energy's Stanthorpe Town and Pozieres 33/11kV substations. These substations are supplied from the 110/33kV transformers at Stanthorpe T60 Bulk Supply substation. Stanthorpe T60 is supplied via one overhead 110kV line from Warwick T58 Bulk Supply. As a back-up, the 33kV system from Warwick can supply 7MVA of load.

The load on Stanthorpe T60 Bulk Supply Substation 110/33kV substation reached 13.1 MVA during 2012/13. As a consequence, if the 110kV line supplying Stanthorpe T60 undergoes a contingency, only 7MVA of the Pozieres/Stanthorpe Town load can be supplied, resulting in customers without electricity supply.

5. EMERGING NETWORK LIMITATIONS

5.1. Applied Service Standards

The service standards that are applicable to a consideration of supply constraints affecting this area of study are summarised below:

- Ergon Energy's subtransmission network has a risk based planning model that takes into consideration the Value of Customer Reliability (VCR) and the Safety Net. Safety Net will protect customers from high impact – low probability events where an upper limit is set for a customer outage consequence for a single contingency event on Ergon's network. The Safety Net outage magnitude & duration thresholds have been developed to align with the System Average Interruption Duration Indices (SAIDI) consequence that scores the maximum consequence score in Ergon's Network Risk Analysis.
- The distribution network planning criteria threshold so that a 50PoE load should not exceed 0.75 x Normal Cyclic Capacity (NCC) rating of the feeder.

5.2. Limitations of the Existing Network

A load history and forecast for the Stanthorpe Area load, is shown in Table 1 below.

TABLE 1 – Stanthorpe Area Supply Substation Load History & Forecast

Substation	Maximum Annual Demand (MVA)											
	Actual Load		Forecast Load									
	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
ME02 Stanthorpe Town ZS	11.5	12.0	12.1	12.2	12.3	12.4	12.1	12.1	11.8	12.0	11.9	12.0
ME117 Pozieres ZS	3.8	3.9	3.8	3.8	3.9	3.9	3.8	3.8	3.7	3.8	3.7	3.8
T60 Stanthorpe BSS	14.0	13.1	13.6	13.6	13.7	13.9	13.5	13.5	13.2	13.4	13.3	13.4

It is clear from the load data in Table 1 that:-

- The load on the Stanthorpe network exceeds the limit of the 7MVA which can be supplied by the 33kV network at the present time.

5.3. Timeframes for Taking Corrective Action

In order to reduce the risk of losing electricity supply to customers in the Stanthorpe area corrective action should be completed before summer 2014/15.

A decision about the selected option is required by 30 June 2014 with a preferred commissioning completed by 30 November 2014. Ergon Energy will consider compelling projects that will be commissioned by 1 October 2015.

5.4. Known Future Network and Generation Development

(i.e. projects that have been approved and are firm to proceed)

Ergon Energy has assessed the market for generation opportunities concluding that there are some customer owned assets and other conceptual projects that could contribute to the non-network solution.

6. OPTIONS CONSIDERED

6.1. Consultation Summary

During its planning process, Ergon Energy identified that action would be required to address a distribution network limitation related to supply to the Stanthorpe area.

On 14 November 2013 Ergon Energy released a Request for Information providing details on the network limitations in the Stanthorpe area. That paper sought information from Registered Participants, AEMO and Interested Parties regarding potential solutions to address the anticipated limitations.

Ergon Energy received three submissions by 23 January 2014, being the closing date for submissions to the Request for Information paper.

6.2. Non-Network Options Identified

In order to satisfy the Regulatory Test, Ergon Energy sought to identify demand side options or demand side/network combinations that address the network limitations at a lower total present value cost than the proposed network solution.

To be considered an alternative demand side option, the proposed solution was required to:

- Have the capacity to defer the proposed network solution by reducing demand below the identified constraint limits;
- Cost less than the savings gained by deferring or removing the proposed network solution; and
- Meet all applied service standard requirements.

This analysis identified no feasible demand side alternative options.

6.3. Distribution Options Identified

In addition to the consultation process to identify possible non-network solutions, Ergon Energy carried out studies to determine the most appropriate distribution network solutions. It was considered that a “do nothing” approach was unacceptable. Four feasible corrective solutions were identified, details of which are contained in the following Section 7.

7. FEASIBLE SOLUTIONS

This section provides an overview of the feasible solutions identified, with full details of the financial analysis contained in Section 7.4. Figures shown below do not include Ergon Energy overheads.

7.1. Option 1 – Install 6MVA Shunt Capacitor Bank by October 2015

Option 1 – Install Capacitor Bank		
<i>Completion Date</i>	<i>Augmentation</i>	<i>Capital Cost⁶</i>
October 2015	Install a new 6MVA 33kV capacitor bank at T60 Stanthorpe BSS, including associated 33kV CB bay.	\$ 740,000

The installation of the capacitor bank as proposed will have the following benefits:

- Increase the supply capacity of the voltage constrained 33kV line from its present 7MW to 10MW
- Provide improved voltage levels at the T60 Stanthorpe 33kV bus when the Middle Ridge to Warwick 110kV line 736 is out of service at high load times
- This option will have an ongoing benefit after the 10yr study period

Disadvantages of this option are:

- Some customers may not have supply restored in a timely manner for an unplanned outage to the 110kV line at high load times
- Will not be completed by November 2014

⁶ Does not include overheads

7.2. Option 2 – External Party A – 3.8MW of Demand Response & Customer Generation

Option 2 – External Party A		
<i>Completion Date</i>	<i>Augmentation</i>	<i>Total Annual Cost over Ten Years⁷</i>
November 2014	Customer Contracts & Customer Generation Deployment (includes 20hrs pa run time)	\$ 510,000 pa

This option involves delivery of the following work:-

- Contract 1.3MW of existing customer generation
- Demand response contracts to provide curtailment of 0.5MW of existing customer loads
- Installation of ten 200kVA customer generators & associated contracts
- Installation of remote monitoring & control facilities
- This solution to be used during an outage to the 110kV line

The Option 2 programme of works as proposed will have the following benefits:

- Can be implemented by November 2014
- Will allow timely supply restoration to more non-contracted customers than Option1

Disadvantages of this option are:

- Has a cost that is about 4 times higher than Option 1

⁷ Does not include overheads

7.3. Option 3 – External Party B – 4.4MW of Diesel Generation

Option 3 – External Party B			
<i>Date Req'd</i>	<i>Augmentation</i>	<i>Capital Cost⁸</i>	<i>Operational Cost</i>
October 2014	Purchase land – 2000m ² approx	\$ 160,000	
May 2015	External party to establish 4 x 1.1MW diesel power station including LV switchroom & step-up TFs		\$726,000 per year (based on 10yr contract, excludes cost of fuel)
May 2015	Construct approximately 2.5km of overhead 11kV line to the generation site & 11kV CB bay at Stanthorpe Town zone sub	\$ 400,000	
May 2015	Establish HV Switchgear at generation site (including building)	\$ 270,000	

This option involves delivery of the following work:-

- Purchase of land for the proposed generation site (approximate size = 2000m² at a cost of \$80 per sqm)
- Required network connections (assumption – 2.5km of 11kV line, plus CB bay at substation)
- Establish a HV switchroom at the generation site
- External Party B to install 4 x 1.1MW diesel power station. Ergon Energy to pay for fuel costs.
- This solution to be used during an outage to the 110kV line

The Option 3 programme of works as proposed will have the following benefits:

- Will allow timely supply restoration to more customers than Option1

Disadvantages of this option are:

- Significantly higher cost than Options 1 & 2
- Potential for negative reaction from the community and the council due to perceptions of noise & air pollution as the site is on the edge of Stanthorpe

⁸ Does not include overheads

7.4. Option 4 – External Party C – 4.8MW of Diesel Generation

Option 4 – External Party C			
<i>Date Req'd</i>	<i>Augmentation</i>	<i>Capital Cost⁹</i>	<i>Operational Cost</i>
November 2014	External party to establish 4 x 1.2MW diesel power station including the site, HV switchgear & 20hrs run time per year.		\$1,320,000 per year (based on 10yr contract)
November 2014	Establish connection from the power station to the nearby Ergon 11kV network	\$ 200,000	

This option involves delivery of the following work:-

- External Party C to install 4 x 1.2MW diesel power station. Including the site & HV switchgear.
- Required network connections (assumption – isolator, recloser, metering unit & associated of 11kV line)
- This solution to be used during an outage to the 110kV line

The Option 3 programme of works as proposed will have the following benefits:

- Will allow timely supply restoration to more customers than Options 1, 2 & 3
- Can be implemented by November 2014

Disadvantages of this option are:

- Significantly higher cost than Options 1, 2 & 3
- Potential for negative reaction from the community and the council due to perceptions of noise & air pollution as the site is on the edge of Stanthorpe

⁹ Does not include overheads

8. FINANCIAL ANALYSIS & RESULTS

8.1. Format and Inputs to Analysis

8.1.1 Regulatory Test Requirements

The requirements for the comparison of options to address an identified network limitation are contained in the Regulatory Test (version 3, November 2007) prescribed by the AER.

The Regulatory Test requires that, for reliability augmentations, the recommended option be the one that **“minimises the costs of meeting those requirements, compared with alternative option/s in a majority of reasonable scenarios”**. To satisfy the Regulatory Test, the proposed augmentation must achieve the lowest cost in the majority of (but not necessarily all) credible scenarios.

The Regulatory Test contains guidelines for the methodology to be used to identify the lowest cost option. Information to be considered includes construction, operating and maintenance costs and the costs of complying with existing and anticipated laws and regulations. The Regulatory Test specifically excludes indirect costs and costs that cannot be measured in terms of financial transactions in the electricity market.

8.1.2 Inputs to Analysis

A solution to address the future supply requirements for the Stanthorpe area as outlined in this document is required to satisfy reliability requirements linked to Schedule 5.1 of the NER and the requirements of the Queensland *Electricity Act 1994*.

According to the AER's Regulatory Test, this means that the costs of all options must be compared, and the least cost solution is considered to satisfy the Regulatory Test. The results of this evaluation, carried out using a discounted cash flow model to determine the present value costs of the various options, are shown in section 8.2.3.

The cost to implement the network augmentations outlined in section 7 has been estimated by Ergon Energy. Sensitivity studies have been carried out using variations in capital cost estimates of plus or minus 20%.

The financial analysis considers all foreseeable cost impacts of the proposed network augmentations to market participants as defined by the regulatory process. [Estimated savings in the cost of network losses have been excluded from the analysis because they were not found to differ significantly between the five feasible options over the twenty year study period].

8.2. Financial Analysis

The economic analysis undertaken considered the present value of cost of alternative options over the ten year period from 2014/15 to 2024/25.

8.2.1 Economic Justification

For networks where the capacity and supply conditions are adequate with the network intact and where the level of load at risk in a single network contingency situation (N-1) does not exceed the threshold levels defined in the Safety Net, which is the case for the Stanthorpe network, Ergon Energy has recently adopted an economic justification methodology to determine whether projects have adequate justification to be implemented. Under this approach capital expenditure on the network is triggered when the cost to customers from probability weighted levels of supply interruption exceed the annualised cost to mitigate the identified network constraint.

For each of the feasible solution options defined in Section 7 an economic analysis has been carried out where a probability based cost of unsupplied energy has been attributed to the “Do Nothing” option and the cost of the solution needs to be less than the cost of “Do Nothing” for Ergon to view the solution project as economically justified.

The annual Cost of Unsupplied Energy is determined from the following equation:

Annual Cost of Unsupplied Energy = Probability of Failure x Probability of Demand > N-1 capacity x Lost Load (MW) x Restoration Time x Value of Customer Reliability

The results of the economic analysis for the Stanthorpe network solution options defined in section 7 are as follows:

TABLE 2 – Stanthorpe Area Options Economic Analysis Results

Solution Option	Justified Annual Spend Based on Cost of Unsupplied Energy Analysis	Annual Cost of Solution	Is this Project Spend Justified?
Option 1 – Install Capacitor Bank	\$149,000	\$120,000	Yes
Option 2 – External Party A – 3.8MW of Demand Response & Customer Generation	\$260,000	\$510,000	No
Option 3 – External Party B – 4.4MW of Diesel Generation	\$278,000	\$861,000	No
Option 4 – External Party C – 4.8MW of Diesel Generation	\$290,000	\$1,352,000	No

8.2.2 Present Value Analysis

Financial analysis was carried out to calculate and compare the Present Value (PV) of the costs of each option under the range of assumed scenarios.

A 10 year analysis period was selected as an appropriate period for financial analysis. A discount rate of 9.99% was selected as a relevant commercial discount rate.

The Base Case (Scenario A) was developed to represent the most likely market scenario.

Market scenarios were formulated to test the robustness of the analysis to variations in load forecast, capital costs and the discount rate. As required by the Regulatory Test, the lower boundary of the sensitivity testing was the regulated cost of capital.

Under the Regulatory Test, it is the ranking of options which is important, rather than the actual present value results. This is because the Regulatory Test requires the recommended option to have the lowest present value cost compared with alternative projects.

The following table is a summary of the economic analysis. It shows the present value cost of each alternative and identifies the best ranked option, for the range of scenarios considered.

The summary shows that **Option 1 – Install Shunt Capacitor Bank has the lowest present value under all scenarios.**

8.2.3 Summary of Present Value Analysis

Sensitivity Analysis excl Overheads (\$M)		Option 1 Network Solution	Option 2 External Party A	Option 3 External Party B	Option 4 External Party C
Scenario - Base Case		-\$0.61	-\$3.14	-\$5.16	-\$8.3
		1	2	3	4
Scenario – Low Load Growth	+20%	-\$0.61	-\$3.14	-\$5.16	-\$8.3
		1	2	3	4
Scenario – High Load Growth	-20%	-\$0.61	-\$3.14	-\$5.16	-\$8.3
		1	2	3	4
Scenario - Discount Rate - High	12.00%	-\$0.59	-\$2.88	-\$4.78	-\$7.64
		1	2	3	4
Scenario - Discount Rate - Low	9.72%	-\$0.61	-\$3.17	-\$5.22	-\$8.39
		1	2	3	4
Scenario - Increased Capital Costs	+20%	-\$0.73	-\$3.14	-\$5.3	-\$8.33
		1	2	3	4
Scenario - Decreased Capital Costs	-20%	-\$0.49	-\$3.14	-\$5.02	-\$8.26
		1	2	3	4

8.3. Discussion of Results

The following conclusions have been drawn from the analysis presented in this report:

- Option 1 is the only solution option which would be justified under Ergon Energy's internal governance processes. Option 1 has a lower cost than "Do Nothing". Options 2, 3 & 4 have a higher cost than "Doing Nothing".

- Economic analysis carried out in accordance with the Regulatory Test has identified that the installation of the capacitor bank described in Option 1, is the least cost solution over the ten year period of analysis in all scenarios considered.
- Sensitivity testing showed that the analysis is robust to variations in capital costs and the selected discount rate.
- As Option 1 is the lowest cost option in all scenarios, it is considered to satisfy the AER's Regulatory Test.

9. DRAFT RECOMMENDATION

Based on the conclusions drawn from the analysis in sections 7 and 7.4 above, it is recommended that Ergon Energy proceeds with Option 1 to:-

- **Install a 6MVAr shunt capacitor bank at the T60 Stanthorpe bulk supply substation by October 2015.**

Technical details relevant to the proposed new distribution asset are contained in section 7.1.

10. CONSULTATION

In accordance with the NER¹⁰, Ergon Energy invites submissions from affected Registered Participants, AEMO and Interested Parties on this Consultation Paper and Draft Recommendation.

10.1. Timetable for Submissions

Submissions in writing (electronic preferably) are due by **16 June 2014** and should be lodged to:

Attention: Network Planning and Strategy

Email: regulatory.tests@ergon.com.au

10.2. Assessment and Decision Timetable

Ergon Energy intends to carry out the following process to assess what action should be taken to address the identified distribution network limitations:

Step 1	Request for (initial) Information - Complete.	Date Released: 14 November 2013
Step 2	Submissions in response to the Request for Information - Complete.	Due Date: 23 January 2014
Step 3	Review and analysis by Ergon Energy - Complete. This is likely to involve further consultation with proponents and additional data may be requested.	Anticipated to be completed by: 1 April 2014
Step 4	Release of Ergon Energy's Consultation Paper and Draft Recommendation of solution which satisfies the Regulatory Test - This document.	Anticipated to be released by: 8 May 2014
Step 5	Submissions in response to the Consultation Paper & Draft Recommendation.	Due Date: 16 June 2014
Step 6	Release of Final Recommendation (including summary of submissions received).	Anticipated to be released by: 30 June 2014
Ergon Energy reserves the right to revise this timetable at any time. The revised timetable will be made available on the Ergon Energy website http://www.ergon.com.au/community--and--our-network/network-management/regulatory-test-consultations		

Ergon Energy will use its reasonable endeavours to maintain the consultation program listed above. However this program may alter due to changing power system conditions or other circumstances beyond the control of Ergon Energy. Updated information will be made available on our website: <http://www.ergon.com.au/community--and--our-network/network-management/regulatory-test-consultations>

The consultation timetable is driven by the need to make a decision by June 2014 if any option involving significant construction is to be in place by November 2014.

At the conclusion of the consultation process, Ergon Energy intends to take steps to progress the recommended solution to ensure system reliability is maintained.

¹⁰ Clause 5.6.2(f) NER v53