Powercor
AUSTRALIA

OPERATING EXPENDITURE

VEGETATION MANAGEMENT

PAL BUS 9.01 – PUBLIC
2026–31 REGULATORY PROPOSAL

Table of contents

1. Overview

We are subject to number of regulatory obligations that govern how we must manage vegetation on our network, including:

- The Code of Practice for Electric Line Clearance (Code), which governs how we inspect and manage vegetation, including by prescribing 'minimum clearance spaces' for our spans;
- our Bushfire Mitigation Plan (BMP), which we are required to comply with under section 113B of the Electricity Safety Act 1998 (ESA); and
- our Electric Line Clearance Management Plan (ELCMP), which outlines our standards and practices for tree cutting or removal, including rectification timing, and which we are required to comply with under section 10 of the Code.

As detailed in our Vegetation Management Step Change attachment,[1] the standard of compliance with the Code that we are now required to achieve has increased significantly throughout the 2021–26 regulatory period. This is primarily a result of advancements in our application of light detection and ranging (**LiDAR**) technology. We have identified a need for us to achieve full compliance with our changed vegetation management regulatory obligations in the 2026–31 regulatory period.

We have considered three options to meet this identified need:

- **Option One: Maintain status quo.** This option involves us achieving broadly the same levels of compliance with the Code that we will achieve in FY25 and incurring expenditure consistent with our FY25 vegetation management expenditure. This option is not our preferred option, as it does not allow for full compliance with our changed regulatory obligations (resulting in large potential exposure to fines due the number of non-compliances we find during any one season) and accordingly involves higher bushfire risk on our network.
- **Option Two: Achieve full compliance by FY27.** This option would see us achieving full compliance with the higher standard of compliance with the Code now required of us by FY27, and would involve a significant and sudden increase in our cutting activities. While this option would allow us to meet the identified need more quickly, we consider it is not feasible due to resource constraints in the industry – we will not be able to find the contractors necessary to cut the number of spans required to achieve full compliance with our changed obligations within this timeframe. Accordingly, it is not the preferred option.
- **Option Three: Achieve full compliance by FY29.** This option involves us achieving full compliance with our changed regulatory obligations by FY29. We consider that FY29 is likely the earliest year in which we can feasibly achieve full compliance the higher standard of compliance with the Code now required of us, as it will allow us time to secure the necessary contractor resource. However, if we can exceed this target, we will endeavour to do so.

Our recommended option is Option Three, under which we will achieve full compliance by FY29. We forecast that Option Three will require an additional $233 million of vegetation management expenditure across the 2026–31 regulatory period compared to our 'base' expenditure, which is our FY25 estimated expenditure x 5.

This business case provides further detail on the options we have considered to meet the identified need, and the forecasting methodology used to determine the expenditure required under our recommended option.

[1] PAL ATT 9.02 – Vegetation management step change – Jan2025 – Public

2. Background

We are subject to a number of regulatory obligations that govern how we must manage vegetation on our network. If vegetation is too close to our electric line spans, there is a real risk that contact between the vegetation and our spans will result in a bushfire. Our regulatory obligations include requirements on us to ensure that all of our spans have a 'minimum clearance space', within which there can be no vegetation. The minimum clearance space requirements are set out in the Code.

Over the 2021–26 regulatory period, we have significantly improved our vegetation management capabilities, such that the standard of compliance we are required to achieve with the Code has significantly increased.

This section sets out background information in relation to our proposed step change, including a summary of our step change methodology and forecast expenditure to achieve full compliance with our regulatory obligations.

2.1 Our regulatory obligations

Unlike our general safety obligations, which require us to minimise risk as far as practicable, our vegetation clearance obligations under the Code are deterministic. That is, the Code requires that no vegetation enters the 'minimum clearance space' (prescribed in the Code) at any time.[2]

If we do not comply with the minimum clearance space requirements, we may be subject to fines or penalties from Energy Safe Victoria (**ESV**). In the 2021–26 regulatory period, we have received a large number of fines from ESV for failing to maintain the minimum clearance space in respect of some of our spans. We have also been subject to two ESV prosecutions, receiving penalties of $2.1 million and $130,000.

In addition to our Code obligations, we must also comply with our ELCMP and BMP. We must submit our ELCMP and BMP to ESV for approval every five years.[3] Once approved, we have a statutory obligation to comply with our BMP and our ELCMP, and ESV monitors our implementation of these plans.[4]

2.2 Our changed vegetation management capabilities

In 2018, following a major review of our vegetation clearance management and contract arrangements, we introduced new technologies to provide faster and more accurate visibility of our network. In particular, we began using LiDAR technology for our vegetation inspections.

The introduction of LiDAR, and our advances in its application, have significantly improved our vegetation management practices and processes over the course of the 2021 – 2026 regulatory period. These improvements have greatly enhanced our ability to identify non-compliances with the Code clearance requirements existing upon inspection, or non-compliances that are expected to arise prior to the next inspection and cutting cycle (necessitating cutting now in order to maintain compliance at all times prior to the next cycle), and our ability to do so in a timely manner.

These improvements and developments include:

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2 Code of Practice for Electric Line Clearance.

3 ESA, section 113A; Electricity Safety (Electric Line Clearance) Regulations 2020 (ELC Regulations), clause 9(3) requires 'major electricity companies' to submit a ELCMP before 31 March 2021, relating to compliance with the Code for the period from 1 July 2021 to 30 June 2026.

4 ESA, section 113B(2) requires us to comply with our BMP; Electricity Safety (Electric Line Clearance) Regulations 2020, clause 10(5) requires us to comply with our ELCMP.

- purchasing and operating three LiDAR-equipped helicopters, which began flying between 2021 and 2023;
- bringing ~50% of our LiDAR inspection function in-house, which allows us to ensure the accuracy and completeness of LiDAR inspections. Our in-house technology for the conduct of LiDAR inspections is more accurate than the technology used by our contractors when we outsourced our LiDAR inspection processes, and generates more accurate and complete LiDAR inspection data. Additionally, we are less reliant on contactors to inform us of non-compliances; rather, we identify non-compliances in-house and can instruct contractors to cut the spans we identify as non-compliant;
- technological developments in our in-house LiDAR technology, including:
    - the introduction of bespoke software for our LiDAR lab, which permits us to create a model of vegetation encroachment on our network that shows what each span looks like and measures proximity of vegetation to determine whether and, if so, when, cutting is required; and
    - developments in our LiDAR imaging technology, resulting in higher quality LiDAR imaging to feed into our assessments of spans for non-compliance; and
- implementing the Xugo vegetation management system, used to manage our vegetation work programme, including issuing work to contractors, noting when cutting tasks are complete, contractor invoicing and reporting of our progress to internal and external stakeholders. Before Xugo, we had our vegetation management data sitting across four different systems. The move to a single system has greatly increased transparency and accuracy in terms of our LiDAR processes and data.

As our vegetation management capabilities have evolved, so has the requisite standard of compliance with the Code we are required by law to comply with. This is because the standard of compliance with the Code required by law at a given time is a product of the ability to identify spans that require cutting to ensure compliance with the Code's line clearance requirements, adopting best practice vegetation management practices and processes prevailing at that time.

3. Identified need

The identified need is to achieve full compliance with the changed standard of compliance with the Code now required of us and our other regulatory obligations, including our ELCMP and BMP. As a responsible network operator, we prioritise compliance with our regulatory obligations. Achieving full compliance with our Code obligations is particularly important, given the catastrophic outcomes that can occur from a bushfire arising from our network.

In order to achieve the standard of compliance with the Code now required of us, we must significantly ramp up our cutting activities. We forecast that we will need to cut an additional ~33,000 spans per year, when compared to our cutting activities during FY25.

3.1 The standard of code compliance we are required to achieve has increased

As noted above, the standard of Code compliance we are required to achieve has increased significantly as we have improved our vegetation management practices.

As our vegetation management maturity has increased, so has our ability to identify spans that are, or will become (prior to the next inspection and cutting cycle), non-compliant with the Code. The Code's strict compliance requirements mean that we must act on any existing or anticipated non-compliances we become aware of, so as to ensure compliance is maintained at all times prior to the next inspection and cutting cycle. Additionally, we are required to report non-compliances weekly to ESV, with a span-by-span break down of any issues.

Our enhanced approach to vegetation management has given us greater awareness of our existing or anticipated non-compliances, compared to the position pre-2021, where our less mature vegetation management system and processes meant that we did not have the ability to detect, and were not aware of, all existing or anticipated non-compliances on our network. Our enhanced ability to detect existing and anticipated non-compliances on our network has increased the standard of compliance with the Code, which we are required by law to achieve through significantly increased cutting activities.

That the standard of compliance with the Code has increased with our enhanced state of knowledge is also supported by the ESV's enforcement activities over the 2021–26 regulatory period. Collectively, CitiPower, Powercor and United Energy have been subject to four ESV prosecutions since 2019, as well as a large number of fines. This increase in the ESV's enforcement activities reflects the higher standard of compliance with the Code now required by law.

3.2 Requirements for full compliance with our regulatory obligations

The result of the developments outlined above is that we now have a much greater visibility of the number of spans that require cutting, in order for us to comply with the Code's clearance requirements. We have identified that full Code compliance will require us to cut an additional ~33,000 spans each year on the Powercor network, compared to our cutting activities in FY25, during which we are continuing the ramp-up in cutting activities required to achieve compliance with the Code to the higher standard now required.

We have assumed that full compliance in each year of the 2026–31 regulatory period will look broadly similar to what full compliance would look like in FY25. Achieving full compliance in FY25 would require us to cut the full volume of the spans that we have identified in FY25 are, or will become (prior to the next inspection and cutting cycle), non-compliant with the Code.

For example, if we identify 10,000 spans in FY25 that are, or will become, non-compliant with the Code, full compliance requires us to cut each one of these 10,000 spans in the FY25 inspection and cutting cycle. However, we will not be able to cut all of these spans in FY25 due to resourcing and time constraints. Our forecast of the number of spans we must cut to achieve full compliance with the Code in the 2026–31 regulatory period reflects the number of spans that we have identified as requiring cutting in FY25, but that we will not be able to cut in that year.

We have assumed that we will continue to identify similar numbers of non-compliant spans in the 2026–31 regulatory period, such that the incremental number of spans we forecast we will be required to cut for full compliance in each year of the 2026–31 regulatory period is the same as the number of spans we have identified as requiring cutting, but that we are not able to cut, in FY25. We are targeting the cutting of this number of spans in FY29, by which time the resourcing required to achieve this is expected to be available.

In addition to our Code obligations, we must also comply with the obligation in our ELCMP that we operate a three year cycle for inspecting hazard trees. Hazard trees are trees that, if they fell in a particular direction, would fall onto our network. This obligation was introduced into our ELCMP in 2020, and we were initially targeting a three year cycle, as required by that obligation. However, as our vegetation management capabilities developed, we began to identify significantly more hazard trees that required inspection, such that we realised we could not inspect all these trees once every three years without further resources. Accordingly, we are currently inspecting these trees on the basis of a five year inspection cycle. We are targeting full compliance with our ELCMP in FY29, by moving to a three year inspection cycle for hazard trees.

3.3 Customer feedback

Our customers recognise the importance of mitigating and managing the risk of natural disaster, including bushfires. A key theme of our customer feedback was the need for us to take preventative action rather than responding after the fact - our customers expect us to play a critical role in proactive management of extreme events, particularly as the occurrence of these events will become more regular as we are faced with a changing climate.

Customers understand that increased investment in bushfire mitigation is necessary to manage these heightened risks, with one customer noting that "extreme weather becoming more frequent requires higher investment." There was consensus that preventative measures were critical for reducing the impact of extreme weather events, particularly in areas prone to bushfires and strong winds. Another customer noted that "Prevention is better than cure. People are already dealing with significant problems caused by weather events… climate change is increasing, and extreme weather events will only increase."

The customer advisory panel is supportive of our regulatory proposal, including our vegetation management step change.

4. Options analysis

We have considered three options to address the identified need of achieving full compliance with our changed regulatory obligations. Our preferred option is Option 3, achieving full compliance by FY29. Option 1 does not meet the identified need, as it does not allow us to achieve full compliance with our changed regulatory obligations. Option 2 meets the identified need earlier in time than under Option 3, but is not feasible to achieve given the resourcing constraints in the industry.

TABLE 1 OPTIONS SUMMARY ($M 2026)

OPTION	DESCRIPTION	OPEX
Option 1: maintain status quo	This option involves us achieving broadly the same levels of compliance we will achieve in FY25 and incurring expenditure consistent with our FY25 vegetation management expenditurE	424
Option 2: achieve full compliance by FY27	This option would see us achieving full compliance with the Code by FY27 and would involve a significant and sudden increase in our cutting activities	7255
Option 3: achieve full compliance by FY29	This option involves us achieving full compliance with our changed regulatory obligations by FY29	657

4.1 Assessment of options for achieving full compliance with our changed regulatory obligations

4.1.1 Option 1: maintain status quo

Under this option, we would continue cutting broadly the same number of spans we will cut in FY25 and operating a five year hazard tree inspection cycle. This option would not allow us to achieve full compliance with our changed Code and ELCMP obligations. Accordingly, it does not address the identified need.

Our forecast expenditure for Option 1 is $424 million, which is our FY25 estimated vegetation management expenditure x 5.

4.1.2 Option 2: achieve full compliance by FY27

Under this option, we would ramp up our cutting significantly and suddenly, in order to achieve full compliance with our changed Code and ELCMP obligations by FY27. This would involve us cutting an additional ~33,000 spans each year of the 2026–31 regulatory period, compared to our estimated FY25 cutting.

[5] Our approach for forecasting our vegetation management expenditure is complex and the preparation of a rigorous forecast requires the use of a detailed model. As we were aware that Option Two would not be feasible, we did not create a model to determine our forecast expenditure under Option Two. The $725 million figure is a broad estimate based on our forecast of costs for FY29, assuming we are fully compliant in that year. We acknowledge that this approach will likely result in a slightly higher forecast expenditure figure than if we undertook a full modelling exercise.

While this option would allow us to achieve full compliance earlier, we do not believe it is feasible to secure the resource required to meet this target. This option would involve an immediate and significant jump in our cutting activities, without allowing any material length of time for us to work with our contractors to grow their pool of workers and secure more resource.

As this option is not feasible, we have not undertaken modelling to forecast the expenditure required. Our high level estimate of forecast expenditure, based on our forecast FY29 costs x 3 (which assume we are fully compliant in that year) plus FY30 to FY31, is $725 million.

4.1.3 Option 3: achieve full compliance by FY29

Under this option, we would ramp up our cutting activities over FY27 and FY28, in order to achieve full compliance by FY29 (i.e. by 2029, we would be cutting the additional ~33,000 spans each year and have moved to a three year hazard tree inspection cycle).

As we are targeting full compliance in FY29, our forecast span volumes for FY27 and FY28 are less than the total incremental volumes we forecast we will be required to cut for full compliance. We will ramp up our cutting activities each year, until we are cutting the full volume of spans required for compliance by FY29. Accordingly, our forecast expenditure for FY27 and FY28 reflects the forecast ramp up in the volume of our cutting activities, based on our best estimate of available resourcing to undertake cutting in those years on the information currently available.

Our forecast expenditure for Option 3 is $657 million. Our $233 million step change reflects the additional expenditure we require to achieve full compliance, on top of our base year x 5 expenditure of $424 million.

4.1.4 Recommended option

Option 3 is our recommended option, as it is the only feasible option that will allow us to meet the identified need. It allows us to achieve full compliance with our changed regulatory obligations, while being realistic about the timeframe in which we can achieve full compliance. We forecast that this option will require an additional $233 million over the 2026–31 regulatory period, compared to our FY25 x 5 expenditure of $424 million.

4.2 Our step change methodology

4.2.1 Overview of methodology for derivation of step change amount

Under Option 3, we are proposing a step change amount of $233 million for our forecast vegetation management operating expenditure for FY27 -31. Our model for calculating this amount is based on the following formula:

Step change = (FY27-31 total expenditure) – (FY25 expenditure x 5)

In this formula:

- 'FY25 expenditure' means our estimated vegetation management expenditure for FY25 adjusted to reflect $m real 2025-26 June.
- 'total expenditure' (adjusted to reflect $m real 2025-26 June) is calculated using the following formula:

Sum of volume x unit rate for each span category + other expenditure = total expenditure

In this formula:

- 'Volume' means, for a span category, the volume of spans in that category to be cut.
- 'Unit rate' means, for a span category, the cost of cutting a span in that category. Our method for calculating the unit rate differs depending on the span category and the type of work that is

typically required for each category. Further detail is set out below. We note that the majority of unit rates reflect historical actual unit costs adjusted for CPI and real price escalation. As a result, our step change amount is conservative as the unit rates used do not reflect any increase in unit rates that we expect will occur as a result of resource constraints in the industry.

- 'Span category' means the categories that spans are put into depending on their location. The categories used are HBRA Rural, HBRA Urban, LBRA Rural, LBRA Urban and Hazard Tree. The forecasting methodology applies these span categories, as the cutting cost per span varies materially across these span categories.
- FY27-31 total expenditure adjusted to reflect $m real 2025-26 June.

We provide further detail on our forecasting approach, including the components of this formula, below and in our Vegetation Management Step Change Appendix and Model.

Volume of spans for cutting in a span category

For each span category, the volume component of our forecast captures the number of spans we consider will require cutting in order for full compliance with the Code to be achieved by FY29. The volume component was calculated in two broad steps.

Step One

We determined, for each span category, the volume of spans we would cut if we were to continue on the same compliance trajectory as in the 2021–26 regulatory period. For each year in the 2026–31 regulatory period, we calculated our span cutting volumes based on a rolling three year historical average for the relevant span category (with the categories being HBRA Rural, HBRA Urban, LBRA Rural, LBRA Urban and Hazard Tree).

For example, to determine our FY27 volumes for our HBRA Rural spans, based on our current level of cutting activities, we added the actual and estimated (as relevant) volumes for our HBRA Rural spans for each of FY24, FY25 and FY26, and used the average of the span volumes for these three years to determine the HBRA Rural volume for FY27. We did the same for each of the other span categories to determine the volume amount for that span category. For FY28, we performed the same exercise but used the average of our actual and estimated volumes for FY25, FY26 and FY27, and so on for FY29 – FY31.

Step Two

We then determined, for each span category, the incremental volume of spans we will also need to cut if we are to achieve full compliance with the higher Code compliance standard by FY29.

We have assumed that full compliance with the higher Code compliance standard in FY29 will look broadly similar to what full compliance would look like in FY25. Achieving full compliance in FY25 would require us to cut the full volume of the spans that we have identified in FY25 are, or will (prior to the next inspection and cutting cycle) become, non-compliant with the Code. For example, if we identify 10,000 spans in FY25 that are, or will become, non-compliant with the Code, full compliance requires us to cut each one of these 10,000 spans in the FY25 inspection and cutting cycle. Our forecasting approach assumes that the number of spans we have identified as requiring cutting in FY29 will be broadly similar to the number of spans that we identify in FY25, and that this figure will achieve full compliance in FY29.

While the number of spans we forecast will be required to be cut in the 2026–31 regulatory period for full compliance is the number of spans that we have identified as requiring cutting in FY25, we have not been able to cut all of the spans identified for cutting in FY25 due to resourcing and time constraints. For example, if our inspection data for FY25 showed that we have 10,000 LBRA Rural spans that are, or will be, non-compliant with the Code by the next inspection and cutting cycle, but we

are only able to cut 7,000 LBRA Rural spans in FY25, we know that we must cut a further 3,000 LBRA Rural spans for full compliance.

We have assumed that we will continue to identify similar numbers of non-compliant spans in the 2026–31 regulatory period, such that the incremental number of LBRA Rural spans we forecast we will be required to cut for full compliance in FY29 is 3,000 spans. We perform this exercise for each span category to determine the total number of incremental spans we must cut each year in order to Our volumes determined under Step Two reflect the incremental volumes of spans in each span category that we must cut for full compliance with the Code, determined as described above. As we are targeting full compliance in FY29, our forecast span volumes for FY27 and FY28 are less than the total incremental volumes we forecast we will be required to cut for full compliance. We will ramp up our cutting activities each year, until we are cutting the full volume of spans required for compliance by FY29. Accordingly, our forecast span volumes for FY27 and FY28 reflect the forecast ramp up in the volume of our cutting activities, based on our best estimate of available resourcing to undertake cutting in those years on the information currently available.

We note that our forecast of incremental span volumes, and accordingly, our step change amount, does not include an allowance for any change in span volumes that may occur as a result of us continuing to increase our vegetation management capabilities to reflect changes in technology or our use of AI, such that we identify more or less spans that require cutting for compliance with the Code.

Unit rates for cutting for a span category

To determine the forecast unit rates for each span category (i.e. HBRA Rural, HBRA Urban, LBRA Rural, LBRA Urban and Hazard Tree) for the 2026–31 regulatory period, we started by determining an average unit rate' for CY23. This average unit rate applies to all span categories other than those that must be cut in accordance with the prescribed rectification timeframes set out in our ELCMP (discussed further below).

We used an average unit rate because our contractors charge us for cutting some of our spans on an hourly basis (generally unplanned or higher risk work, to reflect the additional difficulty for the contractors) and some of our spans on a per span basis (generally planned and lower risk work). Accordingly, it is more appropriate to apply an average unit rate than either an hourly or per span rate in forecasting cutting costs for the 2026–31 regulatory period. For the purposes calculating the unit rate, we split our spans into HBRA and LBRA, rather than the sub-categories described above in the volume section.

To calculate the CY23 average unit rate for all HBRA Rural and HBRA Urban spans, we took the total cost of cutting these spans in CY23 and divided it by the total number of spans in these categories that were cut in CY23. LBRA Rural has only been recently defined in the 2024 works program and highlighted as an area of concern by the ESV. LBRA Rural is viewed as the same risk profile level as HBRA Rural and requires the same level of experience, labour and machinery to complete. Therefore, LBRA Rural spans require the equivalent average unit rate as HBRA Rural. LBRA Urban spans are typically simpler and cheaper to cut than spans in the other three categories, such that we considered a different unit rate was required to reflect the true costs of cutting LBRA Urban spans. Similarly, the cost of cutting Hazard Trees is typically lower than the cost of cutting HBRA Rural, HBRA Urban and LBRA Rural spans, and we used a different unit rate to reflect this.

We used the CY23 blended unit rate for each span category to determine the unit rates for that span category for each of FY24 – FY31, by applying CPI and real price escalation to the CY23 rate. The effect of this approach is that our base year unit rates are not based on estimated unit rates in FY25, rather, they are based on actual unit rates from CY23, adjusted for CPI and real price escalation. The timing of our forecast meant that actual CY24 rates were not available, which is why we used actual CY23 rates. As a result, our estimation of the step change is conservative, as it does not reflect any price increases, over and above CPI and real price escalation, that have occurred in the last year.

The resultant unit rates for each span category were then applied to the sum of the span volumes for that span category derived in accordance with Step One and Step Two above, net of the volume of the incremental spans (i.e. the portion of the Step Two span volumes) to which our ELCMP obligation to rectify non-compliance within a prescribed period applies.

As noted above, we have applied a different unit rate to the incremental spans that we have identified will require cutting in accordance with the rectification timeframes set out in our ELCMP. While we are required to cut these spans to achieve Code compliance, our ELCMP obligation dictates the timeframe within which we must undertake the cutting.

Our ELCMP requires us to assign a priority clearance code to each span that we identify as non-compliant with the Code, being 'VP1' (highest priority), 'VP2' (medium priority) and VP3 (lowest priority). We must cut all VP1 non-compliances within 24 hours, all VP2 non-compliances within 7 days and all VP3 non-compliances within 14 days. We currently target cutting all our VP1 spans within 24 hours. The VP1 volumes are typically low, and we generally comply with our ELCMP in this regard. We note that, in terms of rectification cutting, the volumes derived under Step One only include VP1 and not any VP2 and VP3 spans. Accordingly, the volumes determined under Step One are already compliant with the ELCMP timeframes, such that there is no need to apply any different unit rates to the CY23 adjusted rates for any of the Step One span volumes.

For the incremental spans (i.e. the portion of the Step Two span volumes that will require cutting within the VP2 and VP3 timeframes), we have determined a different unit rate to reflect the different unit cost involved in rectification cutting compared to planned cutting. Contractors typically work in a different manner when cutting to rectification timeframes. This type of cutting is usually less efficient than planned cutting, including because contractors cannot travel down a line on the network, cutting spans sequentially to deliver economies of scale. Instead, they must program cutting to cut to the timeframes set out in the ELCMP, which does not allow for the same economies of scale.

Our unit rate for our rectification cutting is based on our FY24 average cost per span for our VP2 and VP3 rectification cutting, which was calculated by dividing our total FY24 rectification cutting expenditure for our VP2 and VP3 spans by the number of VP2 and VP3 spans that were cut to our ELCMP timeframes. Our rectification unit rates for each year of the 2026–31 regulatory period reflect our FY24 cost per span, adjusted for CPI and real price escalation. This exercise is done for all VP2 and VP3 rectification cutting to deliver a single rate to be applied to each of those categories (after adjusted for CPI and real price escalation), rather than being performed on each of these categories separately to determine to distinct rates.

Volume x unit rate for each span category

The resultant unit rates for each span category were then applied to the sum of the span volumes for that span category derived in accordance with Step One and Step Two above.

To determine our total expenditure required for span cutting in FY27 – FY31, we:

- take the total volume figure derived by summing the Step One and Step Two span volumes for each span category in each year of FY27 - FY31;
- subtract from this figure the volume of the incremental VP2 and VP3 spans (i.e. the portion of the Step Two span volumes that are VP2 or VP3 spans), to which our ELCMP obligation to rectify non-compliance within a prescribed period apply; and
- multiply the resultant figure by the CY23 blended unit rate, adjusted for CPI and real price escalation, for the corresponding span category in that year.

We then take the total volume of the incremental VP2 and VP3 spans (i.e. the portion of the Step Two span volumes that are VP2 or VP3 spans) in each year of FY27 – FY31, and multiply this figure by our rectification cutting unit rate for that year.

We then add the total expenditure for each span category for each year of FY27-FY31 together, and also add the expenditure for our rectification cutting for that year, to determine the total cutting expenditure for that year. To determine the total expenditure for the FY27 – FY31 period, we add the resultant expenditure figures for each of the five years together.

Other expenditure

Our forecasting methodology also includes an 'other expenditure' component. This captures our vegetation management expenditure other than the expenditure required for cutting spans (which is determined as described above).

Our 'other expenditure' captures our LiDAR inspection costs, our contractor liaison costs and the costs to us of moving from a five year hazard tree inspection cycle to a three year hazard tree inspection cycle.

Our LiDAR inspection costs for each year of FY27 - FY31 are determined by using Victoria Power Networks' forecast LiDAR inspection costs for CY2024 (as actual costs were not available at the time of preparing our forecast). These costs are adjusted each year for CPI and real price escalation. We note that we have updated our approach to allocating our shared LiDAR costs as between ourselves and CitiPower, such that we are now being allocated a lower percentage of our shared LiDAR costs than previously. This updated approach is more consistent with our actual LiDAR costs and the resultant reduction in the shared LiDAR costs allocated to us is reflected in our estimation of our step change amount.

For our contractor liaison costs, we used our FY24 contractor liaison costs as the base figure and adjusted this for CPI and real price escalation. We then applied a further uplift of $480,000 per year, to reflect the salaries of the new staff that we will require in order to manage our contractors. The work required to manage our contractors will increase as we ramp up our cutting, and we will require more internal resource to manage this. We have assumed that we will hire 8 more staff, on salaries of ~$120,000 per year, with costs to be split equally between Powercor and CitiPower (although these staff will also assist with United Energy's contractor liaison requirements). This approach has been adopted for simplicity, given the relatively modest costs in issue.

Our ELCMP requires us to develop a three year tree inspection cycle to identify tree hazards. We currently have a five year inspection cycle, and moving to a three year cycle will require significantly more expenditure. To determine the costs to us of moving from a five year hazard tree inspection cycle to a three year hazard tree inspection cycle, we used our actual hazard tree inspection cycle expenditure for FY23 and applied a 2.3x uplift. We estimate that we will need to carry out just over double the hazard tree inspections per year than we are currently carrying out, in order to comply with our ELCMP requirement. The 2.3x uplift reflects this increase.

Total FY27 – FY31 expenditure and step change amounts

To determine our total FY27 – FY31 vegetation management expenditure, we added the sum of the span volume x unit rate derived cutting expenditures for each span category to our total amount of 'other expenditure'. We then subtracted our base year vegetation management expenditure x 5 figure (i.e. our estimated vegetation management costs for FY25) from this total FY27 – FY31 figure, to arrive at our step change amount.

4.2.2 Overview of step change amount

An overview of our vegetation management forecast is set out in the table below, with further detail contained in our Vegetation Management Model.

TABLE 2 STEP CHANGE PROPOSAL ($M 2026)

FACTOR	CONTRIBUTION TO STEP CHANGE
Base year x 5	~$424 million
Cutting of incremental span volume	~$209 million
Contractor liaison costs	~$2 million
Shortened hazard tree inspection cycle	~$22 million
Total step change (sum of rows other than base year x5)	**~$233 million**

Our base year (FY25 forecast) x 5 is ~$424 million. We are proposing a step change of $233 million, which reflects:

- the additional cutting activity we must undertake to achieve full compliance by FY29 with the changed standard of compliance with the Code now required of us;
- an increase in our forecast contractor liaison costs to reflect the additional staff we will require to manage our contractors as we ramp up our contractors' cutting activities, in order to achieve Code compliance; and
- additional expenditure to increase our hazard tree inspection cycle from every five years to every three years. We are currently non-compliant with our ELCMP regarding hazard tree inspection cycles, which requires a three year cycle.

Our step change also reflects a decrease in our annual LiDAR costs, as a result of updating our approach to allocating our shared LiDAR costs as between ourselves and CitiPower, such that we are now being allocated a lower percentage of our shared LiDAR costs. This updated approach is more consistent with our actual LiDAR costs.

5. Recommendation

We recommend Option 3 – Achieve full compliance by FY29, as it is the only feasible option that will allow us to meet the identified need. It allows us to achieve full compliance with our changed regulatory obligations, while being realistic about the timeframe in which we can achieve full compliance. We forecast that this option will require an additional $233 million over the 2026–31 regulatory period, compared to our FY25 x 5 expenditure of $424 million.

The table below summarises the incremental operating expenditure of the preferred option in each year of the 2026–31 regulatory period.

TABLE 3 FORECAST EXPENDITURE FOR PREFERRED OPTION ($M 2026)

	FY27	FY28	FY29	FY30	FY31	TOTAL
Incremental operating expenditure under Option 3	18	32	60	61	62	233