VEGETATION MANAGEMENT STEP CHANGE

UE ATT 9.02 – PUBLIC

2026–31 REGULATORY PROPOSAL

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1. Summary

This appendix sets out the proposed vegetation management step change included in our operating expenditure forecast for our provision of standard control services for the 2026–31 regulatory period.

1.1 Overview of step change

We are proposing a step change of $72 million. This step change reflects the increased costs required for us to achieve compliance with our vegetation management obligations, in particular:

- the Code of Practice for Electric Line Clearance (**Code**), which governs how we inspect and manage vegetation;[1]
- 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, and which we are required to comply with under section 10 of the Code.

A high level overview of the components of our step change amount is set out in the table below.

TABLE 1 UNITED ENERGY STEP CHANGE ($M REAL 2025–26 JUNE)[2]

Base year x 5	$110 million
Cutting of incremental span volume	~$60 million
Shortened hazard tree inspection cycle	~$10 million
LiDAR costs	~$2 million
Total step change (sum of rows other than base year x 5)	**$72 million**

Unlike our general safety obligations, that 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.[3]

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 light detection and ranging (**LiDAR**) technology to replace our ground-based vegetation inspection practices.

The introduction of LiDAR, and our advancements in its application, have significantly improved our vegetation management practices and processes over the course of the 2021–26 regulatory period. These improvements have greatly enhanced our ability to identify existing non-compliances with the Code clearance requirements or non-compliances that are expected to arise prior to the next

1 Set out in Schedule 1 of the Electricity Safety (Electric Line Clearance) Regulations 2020.

2 The figures included in this table have been rounded to the nearest million. Our vegetation management operating expenditure model contains more granular amounts.

3 Code of Practice for Electric Line Clearance

inspection and cutting cycle (necessitating cutting in order to maintain compliance at all times), and our ability to do so in a timely manner. These improvements and developments include:

- 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 non-compliant spans;
- technological developments in our in-house LiDAR technology, resulting in higher quality LiDAR imaging to feed into our assessments of non-compliance;
- implementing the Xugo vegetation management system, which is significantly more advanced than our previous system and operates as a 'single source of truth' for our vegetation management data; and
- introduction of AI technology for our modelling of vegetation encroachment on our network.

The result of these developments 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. We have identified that full Code compliance will require us to cut an additional ~33,000 spans each year on the Powercor network, ~5,500 spans on the CitiPower network and ~10,000 spans on the United Energy 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. At the same time, as we are identifying more non-compliances, the number of spans we are required to cut within our ELCMP rectification timeframes is also increasing.

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.

As our ability to identify spans that require cutting to ensure compliance has increased, so too has the standard of compliance with the Code required by law. Where previously we may have been compliant by cutting, for example ~15,000 spans a year, that is no longer sufficient – the standard of compliance has increased such that we are now required to cut significantly more spans, which comes at a much higher cost.

At the same time, our ESV accepted BMP and our ESV approved ELCMP, which we are also required to comply with, have been updated during the 2021–26 regulatory control period to codify our enhanced vegetation management practices and processes, such that compliance with those instruments reflects our enhanced capabilities to identify spans requiring cutting, and results in a need to cut a greater number of spans than pursuant to previous iterations of our BMP and ELCMP.[4]

That we are being held to a higher standard of compliance with the Code than previously is supported by the ESV's increased enforcement activities in the 2021–26 regulatory control period. Powercor, for example, has received, on average, upwards of 10 fines per year for Code non-compliance in the

[4] Set out at Issue 6.1.4 of Powercor's 2024 Bushfire Mitigation Plan; Issue 6.11.5 of Powercor's 2023 Bushfire Mitigation Plan; Issue 6.10.5 of UE's 2024 Bushfire Mitigation Plan; and Issue 6.1.4 of Citipower's 2024 Bushfire Mitigation Plan

current regulatory control period. While the ESV was only granted the ability to issue fines within this period, we consider that, had they had this power in the prior period, we would not have been subject to the same number of fines, as we were reporting lower numbers of non-compliances to ESV. The ESV has become much more active in its enforcement activities as our vegetation management capabilities have developed, and is holding us to the higher standard of compliance now required. We have a large potential exposure to fines due to the number of non-compliances we find during any one season.

Our step change represents the increased costs to us of complying with our changed regulatory obligation, being the new Code compliance standard that has resulted from our improved vegetation management program. These incremental compliance costs are not captured in our base year expenditure, including because we are intending to ramp up our cutting activities to achieve full compliance with the new compliance standard by FY29, rather than in FY25. Our step change was calculated by forecasting our vegetation management spend for the 2026 – 2031 regulatory control period, assuming full Code compliance by FY29, and subtracting 5 x our FY25 spend. We anticipate that FY29 is the earliest date that we can feasibly achieve full compliance with our regulatory obligations, as a result of resource constraints in the industry. However, if we can exceed this target, we will endeavour to do so.

Our step change amount primarily reflects the increase in the volume of spans that require cutting for us to comply with our changed regulatory obligations. Accordingly, the costs included in our step change amount are not reflected in the current costs we incur in respect of compliance with the Code.

1.2 Our vegetation management step change satisfies the AER's step change requirements

We have forecast our operating expenditure using the AER's preferred 'base-step-trend' approach. Further detail on our approach to forecasting our vegetation management operating expenditure is set out in our vegetation management business case and model and in section 3.1 of this Appendix. We consider that a step change is necessary to account for the additional operating expenditure required for us to achieve full compliance with our legal obligation to comply with the Code's line clearance requirements, which has changed over the 2021–26 regulatory control period as the standard of compliance has significantly increased.

Our proposed step change is consistent with the AER's guidance on step changes, as set out in the Better Resets Handbook (**Handbook**) and the Expenditure Forecast Guidelines (**Guidelines**).[5] In particular, it fits within the existing categories of step changes previously accepted by the AER and outlined in the Handbook, being a step change required for us to comply with new regulatory obligations.

Our regulatory obligation to comply with the Code has changed during the 2021–26 period. This is because, while the Code requirements are deterministic and have not themselves changed, the standard of compliance with these requirements required by law is informed by what is possible, having regard to industry best practice. As a result of our industry leading vegetation management program, industry best practice has evolved during the 2021–26 regulatory period such that the standard of Code compliance that is possible has increased significantly. This new standard of compliance constitutes a change in a 'regulatory obligation or requirement' for the purposes of the NEL.

Our changed obligation has resulted in a material increase in expenditure. While we have already been ramping up our cutting activities to achieve Code compliance, our step change reflects the

5 AER, *Better Resets Handbook: Towards Consumer Centric Network Proposals,* July 2024; AER, *Better Regulation: Expenditure Forecast Assessment Guideline for Electricity Distribution,* June 2024.

incremental amount of expenditure required for compliance by FY29, above that included in our base year. Accordingly, we are proposing a step change to allow us to recover the efficient costs of complying with our changed regulatory obligations.

The revenue and pricing principles set out in the National Electricity Law (**NEL**) (section 7A) recognise that we should be provided with a reasonable opportunity to recover at least the efficient costs we incur in complying with our regulatory obligations. Additionally, the National Electricity Rules (**NER**) require the AER to determine forecast operating expenditure that reflects the prudent and efficient costs of complying with our regulatory obligations in respect of vegetation management.

In particular, clause 6.5.6(c) requires the AER to accept our forecast operating expenditure included in our regulatory proposal if the AER is satisfied that the total forecast operating expenditure reasonably reflects the prudent and efficient costs of achieving the operating expenditure objectives (the operating expenditure objectives). One of the operating expenditure objectives is to comply with all applicable regulatory obligations or requirements associated with the provision of standard control services.

If the AER is not satisfied that our forecast operating expenditure satisfies the operating expenditure objectives, it must substitute our forecast operating expenditure with its own operating expenditure estimate. The AER's substitution must give effect to the operating expenditure criteria, including the requirement that the forecast expenditure reasonably reflects the prudent and efficient cost of complying with all regulatory obligations associated with the provision of standard control services.

We have estimated our step change amount to ensure that it reflects only the efficient and prudent costs of complying with our changed regulatory obligations.

We design our regulatory proposals with Victorian electricity consumers in mind and have run this proposed step change past our consumer advisory panel (**CAP**), which supported our proposal. Victorians recognise the risks that bushfires can pose for our community, and the CAP was supportive of us receiving additional expenditure to comply with our safety related regulatory obligations, which are designed to minimise bushfire risk for our communities.

1.3 Key documents

The key documents referred to in this appendix are set out below, and provided as attachments to this Appendix.

TABLE 2 KEY DOCUMENTS

1	Powercor, Revised Regulatory Proposal, 2021 – 2026, December 2020
2	CitiPower, Powercor and United Energy 2020-2021 Electric Line Clearance (Vegetation) Management Plan
3	CitiPower, Powercor and United Energy 2021-2026 Electric Line Clearance (Vegetation) Management Plan
4	Vegetation Management Update dated July 2022
5	The Vegetation Program of Work: Overview dated September 2022
6	The Vegetation Management ESV Meeting Materials dated September 2023
7	United Energy Bushfire Mitigation Plan, version 1, dated 7 August 2024

8	ESV Acceptance Letter – Final UE FPP 2019-23

2. Our vegetation management journey

Our vegetation management capabilities and, accordingly, the legal obligation regarding our compliance with relevant Code clearance requirements, have changed significantly since we last submitted a regulatory proposal to the AER in December 2020.[6] In particular:

- we have materially advanced our implementation of LiDAR technology and our ability to analyse the data obtained by LiDAR;[7]
- these advances have significantly increased our ability to detect, and resultant state of knowledge of the number of, spans that require cutting for compliance with our regulatory obligations, including the Code; and[8]
- as our state of knowledge has increased, the standard of compliance with the Code we are legally required to achieve has increased correspondingly. We are now able to identify more spans that are, or will (prior to the next inspection and cutting cycle) become, non-compliant, and have a duty to rectify all existing or anticipated non-compliances it is possible for us to identify in undertaking an inspection cycle under the Code's strict-liability framework. This increase in the number of spans that we identify will require cutting to ensure Code compliance is maintained until the next inspection and cutting cycle is a result of our improved capabilities for modelling future vegetation encroachment, based on our LiDAR data.

The fact that our increased vegetation management capabilities have resulted in a change in our legal obligations is supported by the ESV's enforcement activities during the 2021–26 regulatory period. During this period, we received a significant number of ESV fines and were prosecuted by the ESV on multiple occasions for failing to comply with our Code requirements.[9]

These changes in our regulatory obligations will result in a significant increase in our operating expenditure for vegetation management compliance in the 2026–31 regulatory period, compared to our base year expenditure (which is our estimated vegetation management expenditure for FY2025). This increase in expenditure is a result of the need for more cutting work in the 2026–31 regulatory period than undertaken in previous regulatory control periods, including in the base year, as a result of the increase in the number of non-compliant spans that are now detectable, and associated increase in the standard of compliance with the Code's line clearance requirements we are now legally required to achieve.

Resource constraints have made compliance with our changed obligations impossible in the 2021–26 regulatory control period, such that our base year expenditure does not reflect the actual cost of full compliance with the Code. We are intending to significantly ramp up our cutting activities in the 2026–31 period, to achieve compliance with the Code by the beginning of the 2029 bushfire season.

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6 Powercor, Revised Regulatory Proposal, 2021 – 2026, December 2020; Vegetation program of work: Overview, September 2022.

7 The Vegetation Management ESV meeting materials, September 2023.

8 The Vegetation Program of Work: Overview dated September 2022 shows the increase of spans cut from 2013 to 2022; Vegetation Management Contractor Strategy 2024-31, 4 June 2024.

9 Powercor received upwards of 10 fines a year for Code non-compliance, and United Energy received 6 fines between 2022 and 2023. Powercor has been prosecuted by the ESV for Code non-compliance four times since 2019, and United Energy was prosecuted for the first time in 2023.

2.1 We have materially advanced our implementation of LiDAR technology, and our ability to analyse LiDAR data, since our last regulatory proposal to the AER

LiDAR is a remote sensing method that uses laser light pulses to measure, among other things, vegetation height, density and proximity to our poles and wires. LiDAR has significant benefits compared to ground inspections, as there is no room for subjectivity or human error, the process is consistent and repeatable, and more ground can be covered in a given period of time.

We are continuously improving our LiDAR capability, such that we are identifying a greater number of spans that are, or will (prior to the next inspection and cutting cycle) become, non-compliant each year than previously. While we first started using our in-house LiDAR in 2021, our first full year of LiDAR delivery on time was in 2022, and our capabilities have continued to improve. In 2024, we received all hazardous bushfire risk area (**HBRA**) LiDAR data by 22 July 2024.

We now own three helicopters that are equipped with LiDAR, which scan our network and identify all vegetation in proximity to our network. This data is processed and transformed into 3D models which allows for remote vegetation inspection.

We have been using LiDAR as an in-house solution since 2021. During the 2026 – 2031 regulatory control period, CitiPower, Powercor and United Energy will become the only DNSPs in Australia to bring their LiDAR inspection process fully in-house, to ensure the accuracy and completeness of inspections. This enhanced accuracy is a result of our stringent internal oversight, as well a change in the LiDAR technology from that used by our contractors.

Our LiDAR use and capabilities were somewhat limited prior to 2021, which was when we commenced flying our first two LiDAR equipped helicopters. We purchased our third, and largest, helicopter in February 2022, which began flying in July 2023.[10]

Additionally, the technology used by our LiDAR lab has significantly advanced in the 2021–26 regulatory period. Our LiDAR lab software is bespoke to our business, and permits us to create a model of vegetation encroachment on our network that shows what each span looks like and measure proximity of vegetation to determine whether, and if so, when, cutting is required. Our annual growth model assumes uniform growth across each of our HBRA and LBRA spans (i.e. the same assumption is used for all HBRA spans, and a different assumption is used for all LBRA spans). This model is used to identify when spans will encroach upon the minimum clearance space.

We have recently introduced AI learning into our LiDAR lab for our modelling of vegetation encroachment on our network. The AI uses historical actual growth rates for each span, and produces a more tailored growth assumption than our current assumptions. The 2025 calendar year is our first year using this AI data. We are hoping that it will allow us to better identify vegetation encroachment, such that we can be more accurate in our cutting activities, as we will not be wasting resources cutting spans which will not grow to the extent we predicted, or conversely, will outgrow previous expectations and require cutting earlier.

Additionally, in 2021, we implemented the Xugo vegetation management system. Xugo is 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 from LiDAR inspection through to rectification and audit.

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10 Vegetation Management Update dated July 2022; Vegetation Management ESV meeting materials dated September 2023.

As a result of these developments, our maturity regarding vegetation management has significantly increased since our last regulatory proposal to the AER. This increased maturity has come with a greater ability to detect, and more awareness of the number of, spans that are, or will (allowing for vegetation growth prior to the next inspection and cutting cycle) become, non-compliant with the Code's line clearance requirements, as detailed further below.

2.2 These advances have significantly increased our ability to detect spans that require cutting in order for us to achieve compliance with the Code

As we have continued to implement and develop our in-house LiDAR capability, our state of knowledge regarding our vegetation management has significantly increased because:

- Our in-house LiDAR technology, which has been applied in the conduct of inspection activities that are in-sourced since 2021, is more accurate than the technology used when we outsourced the LiDAR function. The outsourced technology was sparse in terms of capture density, which reduced the accuracy of the images. Our in-house technology has better quality sensors, which means that more accurate data is picked up. Currently, ~80% of our LiDAR function is in-house, with the remaining outsourced. We are intending to bring the LiDAR process fully in-house during the 2026–31 regulatory control period. As we continue to bring our capabilities in-house, we expect that the overall accuracy of the LiDAR data we use for vegetation management will continue to increase. Additionally, technological developments in our in-house LiDAR technology have led to higher quality imaging, and we expect these developments will continue to occur during the 2026–31 regulatory control period. These developments in our data quality have, and will continue to, identify a greater number of spans that require cutting in order for us to achieve compliance with the Code, and maintain compliance until the next inspection and cutting cycle.
- As we have increased our in-house capabilities, we are less reliant on contractors to identify spans that are, or will (prior to the next inspection and cutting cycle) become, non-compliant. Previously, contractors were subject to time pressures that compromised the quality of the inspection, which is not an issue with the in-sourcing of LiDAR inspections. Additionally, outsourcing inspection arrangements incentivise contractors to work on the easiest spans, leaving the harder-to-cut spans, with us being unaware that these more difficult spans may be, or (prior to the next inspection and cutting cycle) become, non-compliant with the Code. With the in-sourcing of LiDAR inspections, we identify non-compliances in-house and are not reliant on contractors to inform us of any issues, resulting in an increase in the number and difficulty (labour and machinery requirements) of spans identified as requiring cutting to ensure compliance with the Code's line clearance requirements.
- The introduction of a third helicopter in 2023 significantly increased the efficacy of our vegetation management program. With three helicopters, we are able to always have two in the sky at once and can complete our inspection program at greater speed (reduction in downtime due to scheduled and unscheduled maintenance). The third helicopter is also faster than our other two and allows us to cover more terrain in a shorter period. Having a greater number of helicopters allows us to inspect higher risk spans multiple times a year, and cut those spans again as required. It also gives us greater flexibility to avoid flying in bad conditions, such as fog, which impact the quality of the LiDAR data. Having an extra helicopter allows us to make up missed flying time on a subsequent day, without pushing out the overall inspection timeframes. Receiving inspection data earlier in the inspection cycle allows us to cut a greater number of spans in a given cutting cycle.

- Additionally, the implementation of our LiDAR lab's bespoke software has bolstered our capabilities to identify vegetation encroachment on our network that will occur prior to the next inspection and cutting cycle, which has led to an increase in the number of spans required to be cut, as we are better able to identify the number of spans that will become non-compliant before the next inspection and cutting cycle.[11]
- We have introduced AI learning into our LiDAR lab for our modelling of vegetation encroachment on our network, which will continue to improve and learn as it obtains more data. The AI uses historical actual growth rates for each span and produces a more tailored growth assumption than our current assumptions. While we are introducing this functionality in CY2025, our hope is that, over time, this will enable us to more accurately model vegetation encroachment on our network and update our cutting programme to reflect this. The impact of this AI learning on the number of spans we identify require cutting is still uncertain and, accordingly, we have not sought to reflect this development in our estimate of our step change amount.
- The implementation of Xugo has enhanced our ability to plan and track our vegetation management program. Completing our planning activities earlier means that we can cut more spans in a given cutting cycle than previously, as we have more time to undertake our cutting activities.

2.3 As our state of knowledge has increased, the standard of compliance with the Code has increased correspondingly

The Code sets out clear requirements for 'responsible persons' to ensure that, at all times, no part of a tree for which the person has clearance responsibilities, is within the minimum clearance space for an electric line span.[12] We have clearance responsibilities for all trees within our distribution area, under section 84 of the Electricity Safety Act 1998 (**ESA**).

The Code does not allow for a risk-based approach to compliance with our clearance responsibilities, in contrast to our general duty under section 98 of the ESA, which requires us to minimise risks 'as far as practicable'.

As outlined in the sections above, as our vegetation management maturity has increased, so has our ability to identify spans that are, or will (prior to the next inspection and cutting cycle) become, non-compliantwith 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.[13]

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. This has increased the standard of compliance with this Code, which we are required by law to achieve through significantly increased cutting activities.

Further, our ESV accepted BMP and approved ELCMP have been amended to reflect our enhanced LiDAR capabilities, with the ESV explicitly requesting that we include a description of our use of LiDAR technology and details of planned tasks, with milestones set out. We have a statutory requirement to

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11 Vegetation management update, July 2022.

12 Clause 3(1) of the Code, which we are required to comply with section 90 of the ESA.

13 See section 10 of Powercor's 2023 BMPs.

comply with these documents, and these amendments constitute new 'regulatory obligations or requirements' for the purposes of the NEL and NER, as well as supporting the fact that industry best practice has changed and, with it, the standard of Code compliance that is possible and, thus, required of us by law.

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 control period. We are required to provide a weekly report to ESV detailing our current HBRA and LBRA non-compliances. 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.

2.4 With these developments, the cost of compliance with our vegetation management obligations has significantly increased

Since our last regulatory proposal to the AER in 2020, the cost of complying with our vegetation management obligations has significantly increased. This is a result of the increased cutting activities required because of our enhanced awareness about our non-compliances. Additionally, resourcing this increased cutting activity is becoming progressively more expensive post-Covid.

There are significant resourcing issues within the vegetation management industry, as a result of:

- the fact that it is a high risk job involving working in proximity to live electricity and complex cutting equipment, with relatively modest pay when compared to other labour work;
- requirements for staff to travel away from home for long periods of time, which people are less willing to accept in the post-Covid era;
- as cutters are less willing to travel, we are required to look at in-state resourcing, which is more limited;
- hiring practices tend towards sub-contracting, which can result in cutters leaving at short notice for a better-paid job;
- it can take years for contractors to develop the skillset and experience required to cut HBRA and LBRA rural spans safely and efficiently, with contractors risking financial loss and safety issues if they put inexperienced crews into challenging HBRA areas.

The result of these issues is that we must pay more for the resource required to manage our vegetation management compliance. The resourcing issues are so significant that achieving full compliance with our changed vegetation management obligations in the current regulatory control period is not possible – we just cannot secure the required resource to achieve this. As a result, our base year expenditure does not fully reflect the efficient costs of compliance with our changed vegetation management obligations, rather, our base year spend reflects the costs of our level of compliance in FY25.

3. Our step change satisfies the regulatory requirements and should be included in our distribution determination

3.1 Overview of step change

As explained in the section above, the cost of complying with our vegetation management obligations has significantly increased since our last regulatory proposal to the AER. This is a result of our increased ability to detect non-compliant spans, which has resulted in a change in our legal obligation to comply with the Code.

We are proposing a $72 million step change for the FY27-31 regulatory control period, using our estimated FY25 expenditure as our base year figure.

UNITED ENERGY VEGETATION MANAGEMENT STEP CHANGE ($M REAL 2025-26 JUNE)

FY25 BASE x 5 ($M)	*FY27 – 31 ($M)*	*STEP CHANGE ($M)*
110	182	72

In this section, we set out an overview of our methodology for determining the step change amount, before explaining how the step change amount meets the relevant regulatory requirements.

3.2 Our step change methodology

3.2.1 Overview of methodology for derivation of step change amount

We are proposing a step change amount of $72 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' is 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 model. Our forecast assumes full compliance with the Code and our other regulatory obligations by FY29.

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 achieve full compliance with the higher Code compliance standard by FY29.

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 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 our forecast LiDAR inspection costs for CY2024, and applying a 15% uplift, as well as adjusting for CPI and real price escalation. We have applied an uplift for United Energy to reflect the fact that we are going to develop our in-house LiDAR inspection and modelling processes to better capture spans in LBRA areas. We share our LiDAR function and resource with Powercor and CitiPower. Our LiDAR processes have historically been focused on identifying non-compliances in HBRA, given the increased risk in those areas.

As Powercor's network has the largest number of spans in HBRA areas, Powercor has traditionally been allocated a larger proportion of our shared LiDAR costs. As part of our journey to full compliance, we are developing our LiDAR inspection capabilities to allow us to conduct better modelling and data interpretation for our LBRA spans. The majority of our spans are LBRA, and we will accordingly be utilising more of our LiDAR resource than historically. The 15% uplift reflects the allocation to United Energy of the increase in LiDAR inspection costs associated with its greater use in respect of LBRA, as the majority of LBRA spans across our three networks are on the United Energy network. No corresponding uplift was applied to CitiPower and Powercor because of our change in approach to allocating LiDAR costs as between these two businesses, which we consider reflects the net effects of the increased LiDAR costs on CitiPower and Powercor.

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 2x uplift. We estimate that we will need to carry out approximately double the hazard tree inspections per year than we are currently carrying out, in order to comply with out ELCMP requirement. The 2x uplift reflects this increase.

We are not forecasting any increase in contractor liaison costs for United Energy, as the cost of staff we will utilise for our contractor management will be allocated to Powercor and CitiPower.

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', adjusted to reflect $m real 2025-26 June. We then subtracted our base year vegetation management expenditure x 5 figure, adjusted to reflect $m real 2025-26 June (i.e. our estimated vegetation management costs for FY25) from this total FY27-FY31 figure, to arrive at our step change amount.

3.2.2 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 3 UNITED ENERGY STEP CHANGE ($M REAL 2025-26 JUNE)[14]

Base year x 5	$110 million
Cutting of incremental span volume	~$60 million
Shortened hazard tree inspection cycle	~$10 million
LiDAR costs	~$2 million
Total step change (sum of rows other than base year x 5)	**$72 million**

Our base year (FY25 forecast) x 5 is $110 million. We are proposing a step change of $72 million, which reflects:

- the additional cutting activities we must undertake to achieve full compliance by FY29 with the changed standard of compliance with the Code now required of us;
- 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; and
- a small increase in our LiDAR inspection costs to reflect the fact that we will be developing our LiDAR capabilities, and that United Energy will be utilising these increased capabilities to a greater extent than previously.

3.3 Regulatory requirements

The revenue and pricing principles set out in the NEL (section 7A) recognise that we should be provided with a reasonable opportunity to recover at least the efficient costs we incur in complying with our regulatory obligations.

Additionally, clause 6.5.6(c) requires the AER to accept our forecast operating expenditure included in our regulatory proposal if the AER is satisfied that the total forecast operating expenditure reasonably reflects the prudent and efficient costs of achieving the operating expenditure objectives. One of the operating expenditure objectives is to comply with all applicable regulatory obligations associated with the provision of standard control services.

If the AER is not satisfied that our forecast operating expenditure satisfies the operating expenditure objectives, it must substitute our forecast operating expenditure with its own operating expenditure estimate. The AER's substitution must give effect to the operating expenditure criteria, including the requirement that the forecast expenditure reasonably reflects the prudent and efficient cost of complying with all regulatory obligations associated with the provision of standard control services (clause 6.12.1(4)).

The AER has previously accepted step changes where the increase in expenditure is required for compliance with a new regulatory obligation, as noted in the Handbook.[15] The AER has noted that:

14 The figures included in this table have been rounded to the nearest million. Our vegetation management operating expenditure model contains more granular amounts.

15 Handbook, p. 26; AER, Powercor 2021 – 2026 Draft Decision, Attachment 6 Operating Expenditure, September 2020 p. 4.

Step changes should not double count costs included in other elements of the opex forecast including the cost of increased regulatory burden over time, which forecast productivity growth may already account for. We will only approve step changes in costs if they demonstrably do not reflect the historic "average" change in costs associated with regulatory obligations.[16]

The Handbook sets out the AER's expectations for a new regulatory obligation step change, being:

- It is clearly linked to the new regulatory obligation and represents a major upward step in cost incurred to comply with it.
- It will have an impact on the costs of providing prescribed network services and it can be demonstrated that it is not capable of being managed otherwise under forecast opex through in-built provisions under output, price and productivity growth.
- No double counting of costs.

Our proposed step change satisfies all of these requirements, as detailed in section 3.4.

3.4 Our step change is consistent with the AER's guidance on step changes

3.4.1 We are subject to a new regulatory obligation

Our legal obligations have changed during the 2021–26 regulatory control period, and the increase in our vegetation management operating expenditure is necessary for us to comply with these changed legal obligations. While the Code clearance requirements are deterministic, our legal obligations to comply with these requirements are qualified by what is possible, having regard to industry best practice. In other words, while the language of the Code has not changed, the substance of what is required is now vastly different as the scope of 'what is possible' has increased.

Courts have recognised that a person's duty to comply with a statutory requirement is dependent on the scope of possibility of compliance. There is a common law defence of impossibility of compliance, which excuses a person from compliance with a statutory obligation when they are unable to comply for a reason beyond their control.[17] In this instance, as the scope of possibility has changed with respect to our Code compliance, so has the scope of our legal obligation.

Over the course of the 2021–26 regulatory control period, industry best practice has evolved to reflect our industry leading vegetation management program. As a result, the standard of compliance that is possible has increased during this period; as our ability to identify spans that are, or will (prior to the next inspection and cutting cycle) become, non-compliant has changed, so has our legal obligation to comply with the Code.

Additionally, as part of considering the relevance of impossibility of compliance to a person's legal obligation to comply with their statutory duties, the Federal Court has also found that the conduct required of a person to comply with their statutory duty is informed by the information available to them at the time.[18] As our vegetation management capabilities have evolved, more information has become available to us, such that we are now subject to a higher standard of compliance with the Code than when we had more limited information.

Previous industry leading inspection practices were incapable of identifying some spans that required cutting to ensure compliance with the Code's line clearance requirements and, accordingly, there was no legal obligation to achieve compliance with the line clearance requirements in respect of these

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16 Guidelines, paragraph 4.3.

17 *Natkunarajah (Liquidator), re FLY365 Pty Ltd (in liq)* [2020] FCA 419 at [40] and *Re Barnden (in his capacity as liquidator of Millrange Pty Ltd) (in liq)* [2021] FCA 415 at [5].

18 *Natkunarajah (Liquidator), re FLY365 Pty Ltd (in liq)* [2020] FCA 419 at [40].

spans. Our current industry leading vegetation management inspection processes mean it is now possible to identify these spans, giving rise to a legal obligation for us to achieve compliance with the line clearance requirements in respect of these spans.

The level of Code compliance that is 'possible' is now vastly different, and our legal obligation has changed as a result.

Similarly to our changed Code obligation, our enhanced vegetation management capabilities have led to us identifying significantly more spans that require cutting within the timeframes set out in our ELCMP. As our ELCMP requirements are dependent on us identifying a span as non-compliant, there was previously no legal obligation on us to comply with our ELCMP in respect of the spans that were non-compliant, but which we did not identify as such. As our vegetation management capabilities have developed and we are identifying more non-compliant spans, we have become subject to a legal obligation to achieve compliance with our ELCMP in respect of these spans.

That we are subject to a changed obligation is supported by changes to our ESV accepted BMP and approved ELCMP during the 2021-2026 regulatory control period, which now detail our required use of LiDAR in our vegetation management activities. Further, as we are statutorily required to comply with the vegetation management practices and processes detailed in these documents, and these obligations are 'regulatory obligations' for the purposes of the NEL, these also constitute 'new regulatory obligations'.

The increase in expenditure is material. While we have already been ramping up our cutting activities to achieve Code compliance, our step change reflects the incremental amount of expenditure required to achieve compliance by FY29, above that included in our base year.

Additionally, our ELCMP and BMP have both been amended to require increased vegetation management activity from us, as well as codifying our use of LiDAR and our enhanced vegetation management capabilities.

Our ELCMP was amended in 2020 and again in 2021, including as follows:

- The annual forecast number of spans with vegetation to be cut increased from our 2020-2021 ELCMP, from 33,500 LBRA spans to 39,400 LBRA spans and 4,500 HBRA spans to 8,850 LBRA spans.[19] We note that this was the forecast in 2021, and that forecasts have increased since that time as our capabilities have continued to develop, and that our next ELCMP (following establishment of the next Code) will reflect our estimates of cutting volumes as set out in this step change proposal.
- A requirement that we implement a three year cycle for our inspection of hazard trees. Hazard trees are trees that, if they fell in a particular direction, would fall onto our network. We committed to inspecting all our hazard trees on a rolling three year cycle. Previously, we were not subject to any such commitment (for completeness, we note that this requirement was introduced in our 2020 ELCMP rather than our 2021-2026 ELCMP).
- Requirements that we use LiDAR to determine the allowance for sag and sway for each span, the allowance for vegetation regrowth for each span and the total amount of vegetation to be cut for each span.

On 9 August 2019, ESV notified United Energy that it had accepted our BMP version 1 (2019-2023).[20] In particular, Attachment 1 (Annual Program of Activities) to our BMP sets out the key milestone for completion of pre-summer inspection/LiDAR program within the HBRA and LBRA. Further, section

19 See CitiPower, Powercor and United Energy's 2021 – 2026 ELCMP, p 22; CitiPower, Powercor and United Energy's 2020 – 2021 ELCMP, p 22.

20 ESV Acceptance Letter – Final UE FPP 2019-23.

FPP18 (Network Assets Preventative Programs Procedure) sets out United Energy's use of LiDAR technology for ascertaining conductor clearances.

As we are statutorily required to comply with our BMP, we are required to comply with these milestones relating to LiDAR, as well as the prescribed procedure programs detailed in the BMP. We submitted a further BMP to ESV on 8 August 2024 and is pending ESV approval.

The latest version of our BMP committed us to using LiDAR for conductor clearance measurement by developing algorithms to identify clearance issues in relation to the following to complement the cyclic asset inspection program:

- Conductor to ground clearances: The intent of this use case is to determine the vertical clearance between the lowest point of a catenary for each circuit (Sub-transmission / HV / LV) and verify compliance.
- Pole top structure clearances: The intent of this use case is to determine the spacing of conductors at the supporting pole and verify compliance.
- Phase to phase (mid span) clearances: The intent of this use case is to determine the displacement between conductors at mid span and verify compliance.

Our commitment to using LiDAR to ensure that minimum clearances are achieved and maintained is codified in our BMP, which reflects the higher standard we are now held to in terms of our vegetation management practices. Complying with this commitment, by continuing to use LiDAR to identify non-compliances, means that we will continue to identify increased numbers of spans that are or will (prior to the next inspection and cutting cycle) become non-compliant. As discussed above, the Code's strict approach to compliance means that we must cut more spans to ensure compliance.

These changes to our BMP demonstrate that the scope of what is possible in terms of bushfire mitigation and Code compliance have changed significantly since the beginning of the 2021–26 regulatory control period. Best practice has evolved, as we have developed our capabilities, and the use of LiDAR is now codified in our ELCMP and BMP. These changes support our proposition that we are subject to a changed regulatory obligation in terms of the standard of our Code compliance; they represent the 'new normal' for vegetation management, and result in us identifying significantly more non-compliances, which we are required by law to rectify.

For completeness, we note that the Code is due to sunset in mid-2025, and a new Code will be introduced. The process for introducing a new Code will likely overlap with the process for our distribution determination, such that we may have an idea of the new Code at the time at which we submit our revised revenue proposal. While we do not expect the new Code to contain any material changes, to the extent that we become aware of any after we submit our regulatory proposal, we will reflect the effect of these in our revised proposal.

3.4.2 Our step change is clearly linked to the new regulatory obligation and represents a major upwards step in costs to comply with it

As set out above, our $72 million step change is a result of the additional cutting activities required for us to achieve full compliance with the Code by FY29, additional expenditure required to implement a three year hazard tree inspection cycle as required by our ELCMP and an increase in LiDAR inspection costs.

We forecast an uplift on our FY25 expenditure for cutting activities of ~$60 million, which represents a significant number of new spans being cut (~10,000 more per year at full compliance, compared to the estimated number of spans to be cut in FY25). This is additional to the expenditure we forecast we would incur if we continued with the same level of compliance we are achieving today. The $60 million is entirely attributable to the increase in cutting activities required to achieve full compliance with the Code.

Our forecast FY25 expenditure may have been sufficient to achieve compliance with the Code to the previous standard we were held to, but it is no longer satisfactory in light of the increased standard of compliance we are being held to, as evidenced by the number of fines and prosecutions we have faced in recent years. We are continuing to work towards full compliance with our new regulatory obligation in FY25, and are intending to work hard to achieve full compliance as soon as practicable. This is complicated by the resourcing constraints in the cutting industry, which prohibit us from ramping up our cutting activities earlier. Our FY29 target for achieving full compliance is realistic in light of these resourcing issues.

A further (~$10 million of our step change is attributable to our changed hazard tree inspection cycle. Our ELCMP, at section 4.1.3, requires us to have a three year inspection cycle to identify tree hazards on our network. We currently operate a five year inspection cycle, which is not compliant with our ELCMP obligations. This requirement was introduced into our ELCMP in 2020, and we were initially targeting a three year cycle, as required. 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 now consider that we can achieve compliance in the 2026–31 regulatory period by obtaining increased resourcing, and have included ~$10 million in our step change to account for this compliance. Our previous expenditure for hazard tree inspection and slashing represents the number of trees that would be cut in a five year inspection cycle, and has never represented the cost of complying our regulatory obligation of a three year inspection cycle. This step change amount is required to comply with our regulatory obligation, which has not been accounted for in our prior distribution determinations or base year spend.

The final $2 million of our step change is attributable to an increase in LiDAR costs. As explained above, we have applied an uplift to our LiDAR costs to reflect the fact that we are going to develop our in-house LiDAR inspection and modelling processes to better capture spans in LBRA areas. We share our LiDAR function and resource with Powercor and CitiPower. Our LiDAR processes have historically been focused on identifying non-compliances in HBRA, given the increased risk in those areas.

As Powercor's network has the largest number of spans in HBRA areas, Powercor has traditionally been allocated a larger proportion of our shared LiDAR costs. As part of our journey to full compliance, we are developing our capabilities to allow us to conduct better modelling and data interpretation for our LBRA spans. The majority of our spans are LBRA, and we will accordingly be utilising more of our LiDAR resource than historically. The 15% uplift reflects the allocation to United Energy of the increase in LiDAR inspection costs associated with its greater use in respect of LBRA, as the majority of LBRA spans across our three networks are on the United Energy network.

3.4.3 Compliance with our new obligation has a clear impact on the costs to us of providing prescribed network services

Compliance with our new regulatory obligations has a clear impact on the costs to us of providing prescribed network services. Operating a safe, reliable and compliant network is a core DNSP responsibility, and our new regulatory obligation to comply with the Code to a higher standard is designed to ensure that our networks are operated as safely as possible.

The NEL recognises that we should be compensated through our distribution determinations for compliance with safety related obligations. We have been compensated for the costs of complying with our previous Code obligations by the AER in previous distribution determinations, which

demonstrates that the AER accepts that Code compliance has a clear impact on the costs to us of providing prescribed network services.[21]

Our increased cutting expenditure, LiDAR expenditure and contractor liaison costs are required for compliance with our new regulatory obligation, and accordingly have a clear impact on the costs to us of providing prescribed network services, as described above.

3.4.4 No double counting of costs

As explained above, our step change represents the additional costs to us of full compliance, when compared to our cutting activities and level of compliance in FY25. Our FY25 base year expenditure does not include any of the costs included in our step change amount, and represents only the level of compliance we will be achieving at that time. While we are subject to this new regulatory obligation in our base year, we cannot fully comply with it as a result of resourcing constraints.

We acknowledge that the 'trend' component of the 'base-step-trend' approach is intended to capture changes in output, price and productivity growth. The trend component does not adequately compensate us for the material increase in our expenditure as a result of our new regulatory obligations.

This increase is not a result of the 'ups and downs' in the different categories of our operating expenditure, and cannot be managed by us, or offset, by a reduction in other categories of operating expenditure. Our regulatory obligations have changed significantly since our last proposal to the AER, as a result of the introduction of new regulatory obligations

[21] AER, *Victorian Distribution Determinations – Final Decision – Appendices,* October 2010, p. 218.

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