



16 July 2012

Mr Chris Pattas
General Manager
Network Operations and Development
Australian Energy Regulator
Level 35, 360 Elizabeth Street
MELBOURNE VIC 3000

Email: Chris.Pattas@aer.gov.au

Dear Mr Pattas

VEGETATION MANAGEMENT REMITTAL

I refer to correspondence of 6 July 2012 regarding CitiPower and Powercor Australia's (**Businesses**) vegetation management opex step change.

As outlined in the submission of 25 June 2012, the Businesses have engaged an independent, third party vegetation management contractor, VEMCO Pty Ltd (**VEMCO**), to undertake vegetation management on their networks in accordance with the requirements of the applicable electric line clearance regulations.

The VEMCO contract provides for lump sum payments for the following services; Lump Sum Services, Additional Services, Full Compliance Services and 2012 Full Compliance Services. The contract (including the services to be provided and the quantum of the lump sum payments) has been varied over time to reflect regulatory changes.

Since the Revised Regulatory Proposal, the Businesses and VEMCO have re-negotiated the vegetation management contract. The re-negotiation of the contract has been triggered by a number of events including an exemption provided by the Energy Safe Victoria (**ESV**) requiring the Businesses to achieve full compliance with the *Electricity Safety (Electric Line Clearance) Regulations 2010 (2010 Regulations)* by the 31st of December 2013. As a result, the expenditure sought in the submission of 25 June 2012 reflects the revised contract values with VEMCO for 2011 and 2012, and the forecast Board approved contract values for 2013 and 2014.

The Businesses note the Australian Energy Regulator (**AER**) continues to seek information in relation to the build up of the unit rates that underpin the proposed vegetation management expenditure forecasts. The Businesses have attempted in good faith to provide the most up to date information, including the relevant contracts which provide the payments made to VEMCO. However, neither the contract nor the operational activities undertaken by VEMCO can ever align with the individual elements of the step change as required in Question 1 of the AER letter of 6 July 2012.

REGISTERED OFFICE

40 Market Street, Melbourne VIC Australia Telephone: (03) 9683 4444 Facsimile: (03) 9683 4499
Address all Correspondence to: Locked Bag 14090, Melbourne VIC 8001 Australia
CitiPower Pty ABN 76 064 651 056 General Enquiries: 1300 301 101 www.citipower.com.au
Powercor Australia Ltd ABN 89 064 651 109 General Enquiries: 13 22 06 www.powercor.com.au

The reality of contracting will never facilitate the analysis the AER is seeking to undertake. As discussed with AER staff on 28 June 2012, contracts for services such as vegetation management (and most other services) are a negotiation. The negotiation quite properly focuses on the final sum payable under the contract. Through such a negotiation, the contractor has no interest in disclosing the types of information the AER is seeking as such disclosure would undermine the contractor's competitiveness in the market place.

In relation to vegetation management step changes, these are incremental to what is a set of existing activities. The reality in the field is multiple tasks will be completed at each site visit. Field crews do not track individual costs by 'reduced clearances for service cables', '100 meter span clearances' or 'removal of HBRA clearance exemptions'. What the Businesses sought to provide the AER in its submission of 25 June 2012 was the best information it had available. If the Businesses had the types of information being sought in Question 1, it would have provided it.

The AER has questioned why the costs presented in the 25 June 2012 submission should be considered efficient and prudent, the potential inference being because it is not based on unit rates it can not be prudent or efficient. The Businesses' are of the firm belief its contract with VEMCO is both prudent and efficient. The arrangement with VEMCO was entered into in 2008, at which time the Businesses operated under the Essential Service Commission of Victoria (ESCV) efficiency carry over mechanism. Under such a mechanism, the Businesses were strongly incentivised to sustainably reduce operating expenditure below the targets allowed for by the ESCV. Entering into a contract that was imprudent or inefficient would have penalised the Businesses for a period of 6 years. Such behaviour can not be rationalised.

Finally, it is worth noting the existing arrangements with VEMCO conclude at the end of 2014. As a consequence to retain their position as the vegetation management contractor to the Businesses, they will need to be successful in the tender process that will commence early 2014. In such circumstances, it would be irrational for VEMCO to seek to extract rents from the Businesses in the lead up to that tender process as it may prove prejudicial to their chances of renewing the contract post 2014.

Related to the efficiency and prudence, the AER has gone on to cover in Question 2 of its letter of 6 July 2012, why the Businesses costs for vegetation management differ from those of other Victorian DNSPs. The Businesses are not privy to all the information and assumptions underlying the forecast costs of other distribution network service providers (DNSPs). It is noted however, that there are a number of factors which must be taken into consideration when making comparisons. Any comparison of unit rates would need to consider average span lengths, density of vegetation, growth conditions, the species and maturity of vegetation, growth conditions, the species and maturity of vegetation, sensitivity of owners/occupiers of land subject to pruning and the incidence of service lines crossing property boundaries. In particular, account must be taken of the different work programs adopted by the Businesses compared to other DNSPs. For example, if the Businesses adopted SP AusNet's annual cutting frequency, this would result in a lower unit cost but higher overall expenditure over the 2011-15 regulatory period.

1.1 Identify the forecast costs for CitiPower/Powercor for each regulatory year of the 2011-15 regulatory control period to achieve compliance with the Electricity Safety (Electric Line Clearance) Regulation 2010)

The costs were identified in Tables A1 and A2 of the Businesses 25 June submission. They are shown in the row entitled 'Un-escalated incr. step change'.

1.2 For the forecast costs identified in response to paragraph 1.1, for each step change, namely 'removal of HBRA clearance exemptions', 'reduced clearances for service cables' and '100 metre span clearances' (each step change state:

(a) the total cost

As discussed in the June 25 submission, the contract with VEMCO is based on a lump sum figure and a set of Deeds of Variation to the lump sum figure. The contract and Deeds of Variation have been provided to the AER as part of the June 25 submission. There is no disaggregation of the individual step changes as these activities are incremental to other vegetation management activities being undertaken at each site. The Deeds of Variation were negotiated as a package and hence it is not possible to separately identify individual step changes.

(b) the volume of work

The incremental volume of work required for the three step changes, removal of HBRA clearance exemptions, reduced clearances for service cables and 100 meter span clearances were approved by the AER in the Final Decision. In addition, Energy Safe Victoria (ESV) determined that CitiPower's and Powercor Australia's work programs were efficient and prudent.¹

The total volume of work since the Businesses submitted the Revised Regulatory Proposal is unchanged. However, the contract payments and timing of physical completion has been modified to align with the ESV 2011 exemption.

The work load approved by the AER for Powercor Australia in relation to the removal of HBRA Exemptions as modified by the ESV 2011 exemption is shown below:²³ The total spans as approved by the AER for Powercor Australia in the Final Decision has been multiplied by the percentage of total spans compliant as required by the 2011 ESV exemption.

¹ Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

² Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

³ Energy Safe Victoria, 'EXEMPTION FROM THE REQUIREMENT TO MAINTAIN A CLEARANCE SPACE IN ACCORDANCE WITH TABLES 1,2 AND 3 OF THE CODE OF PRACTICE OF ELECTRIC LINE CLEARANCE IN THE ELECTRICITY SAFETY (ELECTRIC LINE CLEARANCE) REGULATIONS 2010 granted to Powercor Australia in respect of certain requirements for the maintenance of a clearance space for certain electric lines, January 2011.

	30 June 2011	31 December 2011	30 June 2012	31 December 2012	30 June 2013	31 December 2013
% of total spans compliant	3%	8%	23%	48%	83%	100%
Total spans	5,113	13,634	39,199	81,806	141,456	170,429

Table 1: Powercor Australia's' work load for HBRA Exemption as per Revised Regulatory Proposal (modified by ESV 2011 Exemption)

The work load approved by the AER for Powercor Australia in relation to reduced clearances for insulated conductors as modified by the ESV 2011 exemption is shown below:⁴⁵ The total spans as approved by the AER for Powercor Australia in the Final Decision has been multiplied by the percentage of total spans compliant as required by the 2011 ESV exemption.

	30 June 2011	31 December 2011	30 June 2012	31 December 2012	30 June 2013	31 December 2013
% of total spans compliant	3%	13%	28%	58%	70%	100%
ABC Spans (All Areas)	1,316	5,703	12,283	25,443	30,708	43,868
Service Lines Spans	3,461	14,997	32,302	66,912	80,756	115,365

Table 2: Powercor Australia's' work load for reduced clearances for insulated conductor as per Revised Regulatory Proposal (modified by ESV 2011 exemption)

The work load approved by the AER for Powercor Australia in relation to 100 metre span clearances as modified by the ESV 2011 exemption is shown below:⁶⁷ The total spans as approved by the AER for Powercor in the Final Decision has been multiplied by the percentage of total spans compliant as required by the 2011 ESV exemption.

⁴ Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

⁵ Energy Safe Victoria, 'EXEMPTION FROM THE REQUIREMENT TO MAINTAIN A CLEARANCE SPACE IN ACCORDANCE WITH TABLES 1,2 AND 3 OF THE CODE OF PRACTICE OF ELECTRIC LINE CLEARANCE IN THE ELECTRICITY SAFETY (ELECTRIC LINE CLEARANCE) REGULATIONS 2010 granted to Powercor Australia in respect of certain requirements for the maintenance of a clearance space for certain electric lines, January 2011.

⁶ Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

⁷ Energy Safe Victoria, 'EXEMPTION FROM THE REQUIREMENT TO MAINTAIN A CLEARANCE SPACE IN ACCORDANCE WITH TABLES 1,2 AND 3 OF THE CODE OF PRACTICE OF ELECTRIC LINE CLEARANCE IN THE ELECTRICITY SAFETY (ELECTRIC LINE CLEARANCE) REGULATIONS 2010 granted to Powercor Australia in respect of certain requirements for the maintenance of a clearance space for certain electric lines, January 2011.

	30 June 2011	31 December 2011	30 June 2012	31 December 2012	30 June 2013	31 December 2013
% of total spans compliant	3%	13%	28%	58%	70%	100%
Establish New Clearances – Spans	375	1,625	3,500	7,250	8,750	12,500

Table 3: Powercor's' work load for 100 meter span clearances per Revised Regulatory Proposal (modified by ESV 2011 exemption)

The work load approved by the AER for CitiPower in relation to reduced clearances for insulated conductors as modified by the ESV 2011 exemption is shown below:⁸⁹ The total spans as approved by the AER for CitiPower in the Final Decision has been multiplied by the percentage of total spans compliant as required by the 2011 ESV exemption.

	30 June 2011	31 December 2011	30 June 2012	31 December 2012	30 June 2013	31 December 2013
% of total spans compliant	3%	13%	28%	58%	70%	100%
ABC Spans (All Areas)	139	600	1,293	2,678	3,232	4,617
Service Lines Spans	2,034	8,813	18,981	39,318	47,453	67,790

Table 4: CitiPower' work load for reduced clearances for insulated conductor as per Revised Regulatory Proposal (modified by ESV 2011 exemption)

(c) the different crew types used and their unit rates

There is no specific crew type associated with individual step changes. VEMCO has advised there are 20 separate crew types (see Table F.4 of the 25 June submission for crew types and unit rates), all or some of which could be involved in one of the three identified step changes depending on the characteristics that define the span being cleared.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

⁸ Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

⁹ Energy Safe Victoria, 'EXEMPTION FROM THE REQUIREMENT TO MAINTAIN A CLEARANCE SPACE IN ACCORDANCE WITH TABLES 1,2 AND 3 OF THE CODE OF PRACTICE OF ELECTRIC LINE CLEARANCE IN THE ELECTRICITY SAFETY (ELECTRIC LINE CLEARANCE) REGULATIONS 2010 granted to CitiPower in respect of certain requirements for the maintenance of a clearance space for certain electric lines, January 2011.

(d) the additional inspectors employed

Table F12 identified in the 25 June submission identified the actual number of additional inspectors employed in 2010, 2011 and 2012. The corresponding unit rate is supplied in Table F13.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

(e) state the resources required for traffic management, notification and consultation, data capture, subcontractor resource management, auditing and quality control.

As identified on page 28 of the 25 June submission, the number of resources dedicated to traffic management is span specific. It is not possible to identify the resource required by individual step change element. The best guide would be the information provided by VEMCO shown in Table F15 which identifies traffic control on average comprising 4.5 per cent of the costs for each span.

As identified in the same section of the 25 June submission, costs associated with notification, consultation, data capture, subcontractor resource management, auditing and quality control are conducted by inspectors and are included in the inspector resource requirement.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

1.3 For each unit cost identified in response to paragraph 1.2(c), disaggregate the unit rate for each different crew type into:

(a) Labour rates for each worker

The median labour rates per hour for each worker supplied by VEMCO are shown in Table F9 (note the table has been mislabelled as 'VEMCO non crew unit rates') of the 25 June submission.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

(b) Resource/equipment rates (e.g. vehicles, EWPs, etc)

The median hourly rates for plant and equipment are provided in Table F8 of the 25 June submission.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

(c) Any other relevant categories

The unit rates per hour for floats and living away from home allowances are provided in Table F10 of the 25 June submission.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

(d) The components listed in the Matthew Joyce statement of 30 August 2010

A percentage breakdown of this information is provided in Table F15 of the 25 June submission.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

1.4 For each crew type identified in the response to paragraph 1.2(c), the amount of time and the average time taken for each crew type per span

Neither VEMCO nor the Businesses track actual time spent per span by each step change. What information is available is that identified in Table F11 of the 25 June submission which identified the average amount of time per span. What this shows is the original assumption of 1.59 hours per span on which the Revised Regulatory Proposal was based, has not been achieved and the actual time per span for 2011 and 2012 has been 2.28 hours per span and 1.88 hours per span respectively.

1.5 For each additional inspector employed, identified in the response to paragraph 1.2(d) state:

(a) The circumstances in which they are employed

Inspectors are either employees or subcontractors of VEMCO.

(b) Their hourly contract rates

See Table F13 of the 25 June submission.

The Businesses highlight again that despite VEMCO providing this information, it is not the basis for the contract and Deeds of Variation between the Businesses and VEMCO. These are the subject of a negotiation.

(c) The time taken to inspect each span

Table F14 of the 25 June submission presents the number of spans being inspected per day. This information can not be provided by step change. What Table F14 shows is that the Revised Regulatory Proposal assumed 115 span inspections per day. In practice due to increased complexity and frequency of negotiations and more vegetation being required to be removed than expected, the number of actual inspections per day for 2011 and 2012 has been considerably lower 38 and 55 respectively.

(d) the other resources used for notification and consultation, data capture, subcontractor resource management, auditing and quality control.

As noted on page 28 of the 25 June submission, the functions of notification and consultation, data capture, subcontractor resource management, auditing and quality control are conducted by inspectors and included in their unit rates.

1.6 Provide data for each matter referred to in paragraphs 1.2 – 1.5 in a comparable form to the data submitted by CP/PC in their revised regulatory proposal.

The data presented in the Businesses Revised Regulatory Proposals was total cost by each element of the step change. If the unit rates are used that are discussed in paragraphs 1.2-1.5, then the amounts sought remain the same as those presented in the Revised Regulatory Proposal, that is:¹⁰¹¹

	2011	2012	2013	2014	2015	Total
Powercor Australia						
Removal of HBRA clearance exemption	8,200	7,300	5,600	4,400	3,300	28,800
Reduced clearances for service cables	4,199	4,199	4,199	4,119	4,199	20,996
100 metre span clearances	1,460	1,460	1,460	1,460	1,460	7,300
CitiPower						
Reduced clearances for service cables	2,712	2,712	2,712	2,712	2,712	13,558

Table 5: Businesses allowances sought for vegetation management step changes as per Revised Regulatory Proposal

As explained to the AER in the meeting of 28 June, and the 25 June submission, the Businesses are no longer seeking the amounts shown in Table 5, but rather the allowances shown in Tables A1 and A2 of the 25 June submission. These amounts are lower than those shown in Table 5 hence the Businesses would consider it consistent with the National Electricity Objective that the AER strongly consider the Businesses' 25 June submission.

¹⁰ Powercor Australia, *Powercor Australia LTD's Revised Regulatory Proposal 2011-15*, Appendix 6.1, pg. 543

¹¹ CitiPower, *CitiPower's Revised Regulatory Proposal 2011-15*, Appendix 6.1, pg. 536

1.7 Explain how work practices have changed since the introduction of the Electricity Safety (Electric Line Clearance) Regulations 2010 for each of the step changes

A detailed explanation of the consequences that result from changes to the *Electricity Safety (Electric Line Clearance) Regulations 2010* was provided in Appendix 6.1 of CitiPower and Powercor Australia's Revised Regulatory Proposal.

1.8 Explain all differences between the unit costs provided in CP/PC's submission and in response to paragraphs 1.2 – 1.5 and the unit costs proposed in CP/PC's Revised Regulatory Proposal


VEMCO has advised that the unit rates presented in the 25 June submission are the same unit rates that underpin the statement of Mr Matthew Joyce and hence the Businesses' Revised Regulatory Proposals. As such, there is no difference between the unit cost information provided in the 25 June submission and the Revised Regulatory Proposals.

The Businesses would however highlight that the expenditure sought by the Businesses in the 25 June submission will not reconcile with the unit rates. This is because since 2010, the Businesses have negotiated agreements with VEMCO that result in a lower cost.

2.1 In the context of achieving compliance with the Electricity safety (Electric Line Clearance) Regulations 2010, explain and justify why:

(a) It is necessary for CP/PC's forecast costs identified in the response to paragraph 1.1 to be higher than those of other Victorian DNSPs, on the basis of differences between CP/PC's networks and the networks of other Victorian DNSPs

The Businesses are not privy to all the information and assumptions underlying the forecast costs of other DNSPs. The Businesses would note however that:

-  The consistency of the unit rates of the Victorian DNSPs other than CitiPower and Powercor Australia and the supporting information provided in respect of these unit rates does not therefore, in and of itself, provide evidence that those unit rates are efficient or prudent, or that by reason of being higher than those other DNSPs' unit rates, CitiPower and Powercor's unit rates are not efficient or prudent;
- The unit rates of the other Victorian DNSPs used by the AER do not reflect the characteristics of CitiPower's and Powercor Australia's networks relevant to vegetation management costing. Each of the Victorian DNSPs manages a distribution network in a different part of Victoria. Even in respect of the two largest regional networks (those of Powercor Australia and SP AusNet), there are significant differences. For example, Powercor Australia's network supplies

electricity to customers across 146,000 square kilometres of Victoria, while SP AusNet supplies electricity to customers in only 80,000 square kilometres. While the SP AusNet network is about 41,000 route kilometres carried on approximately 379,104 poles, the Powercor Australia distribution network is almost double that size, at about 82,653 circuit length kilometres on about 528,000 poles.

- Any comparison of unit rates would need to consider average span lengths, density of vegetation, growth conditions, the species and maturity of vegetation, travel costs, site access issues, clean up requirements, sensitivity of owner/occupiers of land subject to pruning and the incidence of service lines crossing property boundaries. Having regard to the differing characteristics of each of the Victorian DNSPs' networks outline above, it is reasonable to infer that the factors set out above will differ across each of the networks.

To make relevant comparisons, and draw the inferences the AER is seeking to make, would require it have detailed knowledge of these factors for each DNSP.

Further the Businesses understand that:

- VEMCO unit rates included all costs required to achieve compliance. [REDACTED] and [REDACTED]
- [REDACTED] The ESV approved the CitiPower and Powercor Australia work program in September 2010.¹² CitiPower's and Powercor Australia's work program is based on a 3 year cycle inspection and cutting program, with mid cycle maintenance (inspection and cutting) as required. The deeper cut required for a 3 year cycle results in a higher unit cost, however, given a 3 year cycle only requires VEMCO to attend the tree once every 3 years, the total costs over the 2011-15 year period is lower compared to an annual cycle. Given, Powercor Australia has a significant higher number of vegetated spans (242,000) compared to [REDACTED] the approach is prudent and efficient. Please refer to the attached model which determines the additional costs for Powercor Australia if the [REDACTED] clearing strategy is applied to the Powercor Australia network. [REDACTED].

¹² Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

(b) If CP/PC is not able to respond to paragraph 2.1(a), CP/PC's expenditure forecasts identified in the response to paragraph 1.1 are prudent and efficient

The Businesses believe the costs proposed in its 25 June submission are both prudent and efficient. Under the ESCV's efficiency carry over mechanism (**ECM**), the Businesses were provided a strong incentive to make efficiency improvements in terms of operating expenditure. This is because under the ECM, the Businesses were able to retain the benefits of any outperformance for a period of 6 years. Under such a mechanism, it would be irrational for the Businesses to incur costs above and beyond what is necessary as any 'gains' would accrue to VEMCO.

Further, vegetation management is the single greatest operating expenditure item across the two Businesses. As such, it attracts greater management and Board oversight than any other cost item.

Finally it is worth noting the existing agreement with VEMCO concludes at the end of 2014. As a consequence to retain their position as the vegetation management contractor to the Businesses, they will need to be successful in the tender process that will commence early 2014. In such circumstances, it would be irrational for VEMCO to seek to extract rents from the Businesses in the lead up to that tender process as it may prove prejudicial to their chances of renewing the contract post 2014.

2.2 Provide all documents and data (in a comparable form to the unit cost data submitted by CP/PC in their Revised Regulatory Proposal) to support the responses to paragraph 2.1. In particular, identify the documents and data that have previously been provided to the AER during the distribution determination process.

The Businesses Revised Regulatory Proposal did not include unit rate data. Rather, it provided cost information by step change.

Further, the Businesses response to Question 2.1 is based on the incentive properties that existed under the previous and current regulatory framework, that is, the efficiency carry over mechanism and the efficiency benefits sharing scheme.

3.1 State and explain the cutting cycle, that is the period between cuts, proposed by each of the CP/PC upon which forecast costs have been provided in order to achieve compliance with the Electricity Safety (Electric Line Clearance) Regulations 2010.

The Businesses' strategy for maintaining the vegetation clearance space is outlined in the respective ESV approved Bushfire Mitigation Management Plans and Vegetation Management Plans.¹³¹⁴ The Businesses' strategy for maintaining the vegetation clearance space is structured into segments

¹³ Powercor, 2012 to 2013 Electric Line Clearance [Vegetation] Management Plan, March 2012.

¹⁴ CitiP

Power, 2012 to 2013 Electric Line Clearance [Vegetation] Management Plan, March 2012.

covering; inspection, non compliance rectification pruning, database coding and performance monitoring.

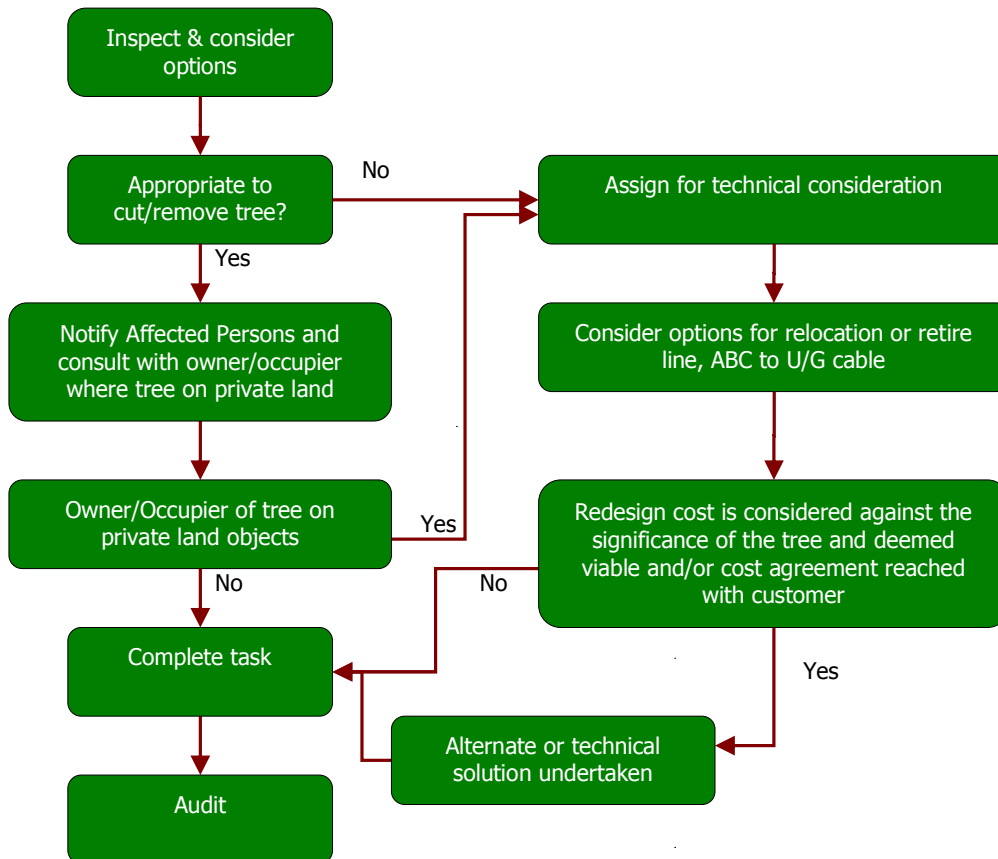
The strategy is separated into Low Bushfire Risk Areas (LBRA) and Hazardous Bushfire Risk Areas (HBRA). The HBRA strategy is designed to achieve and maintain defined compliance during the declared fire danger period each year. All cutting and removal of trees is expected to achieve compliance.

In determining the location where work will be required to maintain the clearance space, VEMCO makes use of the following inspection programs:

- LBRA has an inspection regime of no greater than 2 years for high voltage powerlines and no greater than 3 years for low voltage (only) powerlines. Clearing will be completed to achieve compliance and typically requires clearing of all non compliance and current year coded vegetation within the same calendar year;
- HBRA has a cyclic program targeted to address specific locations to maximize the long term clearance opportunities as well as an annual presummer program which is designed to achieve and maintain compliance during the declared fire danger period; and
 - LBRA and HBRA scheduled programs are supplemented by additional reports from;
 - Associated program of audits by VEMCO and the Businesses, and
 - Reports from the public on areas of concern.

At each location VEMCO will determine the most appropriate method of maintaining the clearance between powerlines and vegetation in accordance with the figure below.

METHOD OF MAINTAINING CLEARANCES (BETWEEN TREES & ELECTRIC LINES)



The required clearance space dimensions are determined by VEMCO. Required clearance space measurements are determined having regard to the minimum clearances space distances specified in the 2010 Regulations and include an allowance for the sag and or sway of the particular conductor and span length under maximum wind loading (where not specified in the 2010 Regulations).

VEMCO determines the pruning cycle at each locality based on growth rates of individual species, clearances achieved and consultation with owners/occupiers under clause 5 of the 2010 Regulations. The achievement of the targeted pruning cycles may be varied depending on the outcome of these factors.

Powercor Australia aims to achieve the minimum clearance space requirements specified in the 2010 Regulations. The targeted pruning cycle for Hazardous Bushfire Risk Areas (**HBRA**) is 3 years.

The Businesses aim to achieve the minimum clearance space requirements specified in the 2010 Regulations. The targeted pruning cycle for Low Bushfire Risk Areas (**LBRA**) is 3 years.

3.2 State whether the term of the cutting cycle:

(a) Differ between CitiPower and Powercor and if they differ, explain how

The Businesses each respectively submitted *Bushfire Mitigation Management Plans* and *Vegetation Management Plans* to the ESV. Under the 2010 Regulations the Businesses must obtain annual ESV approval for its *Bushfire Mitigation Management Plans* and *Vegetation Management Plans*. The ESV has approved the Businesses' *Bushfire Mitigation Management Plans* and *Vegetation Management Plans* for 2010, 2011 and 2012.

The most significant difference between CitiPower and Powercor Australia is that CitiPower does not have any HBRA.

(b) For each step change differs and if they differ, explain how

At each location VEMCO will determine the most appropriate method of maintaining the clearance between powerlines and vegetation in accordance with the figure above. VEMCO will not determine the cutting cycle based on each of the respective step changes.

(c) For services provided in HBRA and LBRA differ and if they differ, explain how

Please refer to the response to question 3.1.

3.3 Explain the process undertaken to establish the CP/PC's preferred cycle would be prudent and efficient in the circumstances of each of CP/PC

Please refer to the response to question 3.1.

3.4 Identify and explain the criteria employed to determine the preferred cycle would be prudent and efficient in the circumstances of each of CP/PC

VEMCO and the Businesses determined that the 3 year cutting cycle was a prudent and efficient cycle given that with an annual cutting cycle, unit costs would reduce, however, the units of work would increase significantly and costs across the five years could increase by as much as \$6 million per annum for the Businesses.

3.5 Identify the other options that were considered by each of CP/PC for each step change in either HBRA or LBRA and the reasons why they were not implemented

Please refer to the response to question 3.1 and 3.2(a).

4.1 Explain the approach taken by CP/PC to manage compliance risk arising from obligations under the Electricity Safety (Electric Line Clearance) Regulations 2010 (compliance risk)

The Businesses' strategy for managing compliance risk arising from obligations under the 2010 Regulations is outlined in the respective ESV

approved *Bushfire Mitigation Management Plans* and *Vegetation Management Plans*.

The Businesses are responsible for comprehensive auditing of the vegetation management process including compliance to the requirements of the *Bushfire Mitigation Management Plans* and *Vegetation Management Plans*. The Businesses identify the key risks associated with the delivery of the bushfire mitigation management service and vegetation management service and their associated control measures. Using this information an annual audit schedule has been created.

Primary audits, such as OHS Systems, Environmental Management Systems, Quality Control, Traffic Management Procedures, etc, are targeted at the verification of systems of management and risk mitigation. These are further supported by field verification and compliance monitoring audits.

Primary audits are conducted by personnel who have suitable audit training and background. External specialist resources, which are experienced and have appropriate expertise in the relevant field, may be engaged to assist.

The audit schedule is reviewed annually to address any changes in the Businesses' requirements, concerns from previous years, and the contractor's performance history.

There are broadly four different types of audits within the schedule, relating to;

- health and safety – safe work methods (e.g. General work methods, working near powerlines and tree clearing methods), equipment vehicles and plant, inductions, training and authorisation, traffic management.
- compliance – general inspection and cutting compliance with programs, hazardous trees, stakeholder and defect management.
- procedure/work instruction – policies, work instructions, procedures, customer notification, data management and accuracy, reporting and documentation.
- environmental – important or significant vegetation, chemicals, weeds, noise, pruning technique and quality.

Audits are scheduled across all levels of the Businesses. The audit process considers actual performance and outputs and then compares them against planned performance and expected outputs. Where a variation occurs the item is noted and followed through to ensure corrective actions are taken and improvement opportunities are factored into plans to enhance future performance.¹⁵

¹⁵ Powercor, 2012 to 2013 Electric Line Clearance [Vegetation] Management Plan, March 2012.

4.2 Identify

(a) All relevant external parties involved in the management of CP/PC's compliance risk

VEMCO is the only external party involved in the management of compliance risk arising from the 2010 Regulations.

(b) Whether a relevant external party identified in response to paragraph 4.2(a) assumed the compliance risk on behalf of CP/PC

No external party can assume the Businesses compliance risk. CitiPower and Powercor Australia remain the only entities liable under the 2010 Regulations for enforcement action by ESV.

(c) The costs CP/PC incurs in respect of a relevant external party assuming their compliance risk

VEMCO has not, and can not, assume CitiPower or Powercor Australia's compliance risk.

5.1 State whether Matthew Joyce is currently an employee at VEMCO

Matthew Joyce is no longer an employee of VEMCO.

5.2 If Mr Joyce is not currently an employee of VEMCO, state whether and the extent to which VEMCO is unable to:

(a) Verify the unit costs outlined by MR Joyce in his witness statement dated 30 August 2010

(b) Clarify the matters outlined by the ACCT in the Application by United Energy Distribution Pty Limited ACom[pT 1 at paragraph 660-662

The information provided by VEMCO was included in the 25 June submission and is repeated in responses to the Question 1.

6.1 State whether the following is correct regarding the expenditure forecasts for the vegetation management step change that CP/PC proposed in its submission:

- Higher expenditure is proposed in the 2011, 2012 and 2013 regulatory years*

The AER provided in its Final Determination the following allowances for CitiPower and Powercor Australia for changes Electricity Safety (Electric Line Clearance) Regulations 2010.

\$'000 2010	2011	2012	2013	2014	2015	Total
CitiPower	2,684	1,630	1,571	1,536	1,704	9,127
Powercor Australia	16,593	15,811	9,731	7,039	7,251	56,425

Table 6: AER allowances for changes in Electricity Safety (Electric Line Clearance) Regulations 2010 as per Final Determination

The 25 June submission requested the following allowances with respect to changes in the *Electricity Safety (Electric Line Clearance) Regulations 2010*.

\$'000 2010	2011	2012	2013	2014	2015	Total
CitiPower	1,304	3,856	4,922	3,276	3,101	16,460
Powercor Australia	9,043	20,745	25,424	9,389	8,210	72,810

Table 7: Businesses 25 June submission request for costs due to changes in Electricity Safety (Electric Line Clearance) Regulations 2010

The difference between these two amounts to the incremental costs the Businesses seek as part of the remittal process i.e.

\$'000 2010	2011	2012	2013	2014	2015	Total
CitiPower	(1,379)	2,226	3,351	1,740	1,397	7,333
Powercor Australia	(7,550)	4,934	15,693	2,350	958	16,385

Table 8: Incremental allowance sought through remittal process by the Businesses in association with changes in Electricity Safety (Electric Line Clearance) Regulations 2010

As a consequence, compared with the allowance provided by the AER in the Final Determination for step changes associated with changes to the *Electricity Safety (Electric Line Clearance) Regulations 2010*, CitiPower is seeking \$1.4M (\$2010) less in 2011 but \$2.2M (\$2010) and \$3.4M (\$2010) more in 2012 and 2013. Powercor Australia is seeking \$7.6M (\$2010) less in 2011 but \$4.9M (\$2010) and \$15.7M (\$2010) more in 2012 and 2013.

- *Lower expenditure is proposed in 2014 and the forecast expenditure for 2015 is assumed to be a continuation of the 2014 expenditure profile*

Based on comparison with the allowance provided by the AER in its Final Determination for step changes associated with changes to the *Electricity Safety (Electric Line Clearance) Regulations 2010*, CitiPower is seeking \$1.7M (\$2010) and Powercor Australia \$1.0M (\$2010) more than was allowed in the Final Determination.

The Businesses do not have in place a contract for vegetation management services beyond 2014. As a consequence the AER is correct in assuming the Businesses have assumed the 2014 expenditure profile continues in 2015.

- *Differences in costs between regulatory years 2011-13 and 2014-15 reflect an initial cutting program in 2011-2013 to reach full compliance with the Electricity Safety (Electric Line Clearance) Regulations 2010, and thereafter lower expenditure based on maintenance of compliance*

ESV has allowed the Businesses until 31 December 2013 to reach full compliance. Hence, the AER is correct in assuming there is an initial cutting

program over the period 2011-13 to get into full compliance and then maintenance of that compliance in 2014-15.

- *Vegetation management services for CP/PC will be competitively tendered from 2015*

The current vegetation management agreement with VEMCO concludes at the end of 2014 and can not be extended. No formal decision has been made at this stage but it is expected in the lead up to the conclusion of the existing agreement with VEMCO, the Businesses will competitively tender vegetation management services to the market for the period 2015 and beyond.

7.1 In relation to the unit costs referred to in the submission

- (a) For insulated service lines explain why CP/PC circumstances will require additional costs for inspection when inspection costs have been provided under HBRA and LBRA and why it is necessary*

Under the 2010 Regulations, the Businesses are required to provide a greater level of clearance along insulated service lines. A deeper cut of the vegetation results in regrowth occurring at a rate ten times greater than normal growth. As a result ongoing inspection is required to ensure compliance at all times.

- (b) State the additional costs referred to in paragraph 7.1(a)*

The table below breaks down the re-inspection costs for service lines.

\$'000 2010	CitiPower	Powercor Australia
Total cost of inspection	\$47,452	\$54,758

Table 9: Breakdown of reinspection costs for service lines

- (c) Explain why CP/PC's work programs for insulated service lines should be considered as efficient and prudent and how it contributed to higher costs*

In relation to the work program, the ESV considered the Businesses' work program, including the work program for insulated service lines, to ensure compliance with the 2010 Regulations, was efficient and prudent. The 2010 Regulations require the Businesses to provide a greater level of clearance along insulated service lines. Please refer to the Businesses' Revised Regulatory Proposal and Matthew Joyce's Witness Statement for a detailed explanation of the changes in the Regulations.

The Businesses believe the costs proposed in its 25 June submission, including the costs for insulated service lines are both prudent and efficient. Please refer to the response to question 2.1(b).

- (d) For at risk vegetation in HBRA, explain the impact aggressive cutting on the costs per span as compared to other DNSPs*

Powercor Australia has HBRA spans in its network. CitiPower does not have HBRA spans in its network.

If Powercor Australia were to implement a reduced clearing strategy [REDACTED]

Powercor Australia has a significant greater number of vegetated spans than [REDACTED]. Powercor Australia has 242,000 vegetated spans in its network.¹⁶ In comparison, [REDACTED].¹⁷ As a result, if an annual clearance strategy was applied to Powercor Australia's network, the units of work would increase significantly in comparison to applying a three year cycle. A three year cycle results in a higher unit costs, due to the deeper cut, however, the Businesses do not have to revisit the span every year, as a result the costs over the 5 year period is less.

(e) State the cost per span referred to in 7.1(d)

The table below illustrates the cost per incremental HBRA span for Powercor Australia as per the Revised Regulatory Proposal. The cost per incremental HBRA span has been calculated by dividing the AER and ESV approved HBRA incremental spans by Powercor Australia's Revised Regulatory Proposal proposed expenditure for HBRA

\$'000 2010	2011	2012	2013	2014	2015	Cost per span
AER & ESV approved HBRA incremental spans ¹⁸	47,736	40,951	32,297	26,200	23,245	
Powercor Australia's Revised Regulatory ¹⁹ Proposal	\$8,200	\$7,300	\$5,600	\$4,400	\$3,300	\$169

Table 10: Powercor Australia HBRA cost per span

The Businesses would however highlight that the expenditure sought by the Businesses in the 25 June submission will not reconcile with the cost per span per the Revised Regulatory Proposal. This is because since 2010, the Businesses have negotiated agreements with VEMCO that result in a lower cost.

¹⁶ Vegetation Witness Statement, Matthew Joyce, pg. 5.

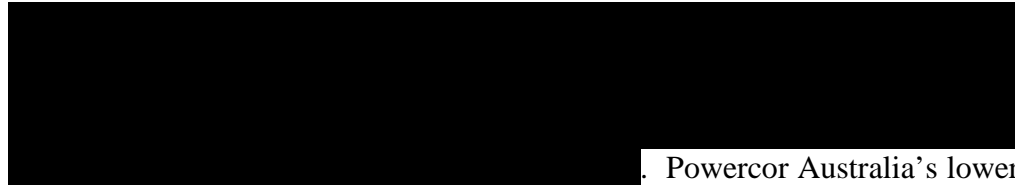
¹⁷ SP AusNet, EDPR 2011-15, Figure 7.5, pg. 243, July 2010.

¹⁸ Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

¹⁹ Powercor Australia, *Powercor Australia LTD's Revised Regulatory Proposal 2011-15*, Table 6.14, 23 July 2010.

Further, neither the contract nor the operational activities undertaken by VEMCO compartmentalise themselves to individual elements of the step change as required by the AER. This because in practice, the activities themselves are not discrete elements but part of a larger exercise undertaken at an individual site.

(f) For at risk vegetation in HBRA, explain why CP/PC's work program should be considered as efficient and prudent



Powercor Australia's lower proposed amount for HBRA and LBRA of \$32M (\$2010) as proposed in the Revised Regulatory Proposal illustrates that Powercor Australia's work program is efficient and prudent and consistent with the National Electricity Objective

(g) For LBRA spans exceeding 100m explain why CP/PC's circumstances have affected the unit costs of servicing these span; that is how the vegetation characteristics of these span lead to higher costs than other DNSPs

The other Victorian DNSP's did not propose a specific step change in relation to LBRA spans exceeding 100 metres. The Businesses cannot speak for the other Victorian DNSPs. The Businesses obtained legal advice of the changes in the 2010 Regulations compared to the 2005 Regulations. The legal advice specified an increase clearance requirement for LBRA spans exceeding 100 metres. Further, the incremental work spans required to ensure compliance with the greater clearances required for LBRA spans exceeding 100 metres was approved by the ESV.

Table 2 of the 2010 Regulations sets out the minimum clearance spaces for powerlines in LBRA (other than ABC or insulated cable powerlines).

Table 2 of the 2010 Regulations requires a larger clearance space for spans exceeding 100 meters in LBRA than Table 10.1 of the 2005 Regulations. The minimum clearance space for spans exceeding 100 meters has been increased in Table 2 of the 2010 Regulations by 1 meter for powerlines under 1kV and 0.5 metres for powerlines over 1kV.

This is a major change for Powercor Australia, but not CitiPower because CitiPower does not have any spans exceeding 100 metres in its network.

The increase in the minimum and required clearance spaces for spans exceeding 100 metres in LBRA means that vegetation which did not have to be cut under the 2005 Regulations because it did not enter the clearance space will have to be cut under the 2010 Regulations because it will be within or likely to enter the required clearance space. In addition, vegetation that would have to be cut under the 2005 Regulations because it was within or likely to

enter the clearance space will have to be cut further, or in some cases removed.²⁰

(h) State the costs referred to in 7.1(g)

The Businesses' revised proposed expenditure set out in the 25 June submission cannot be disaggregated according to the step changes. Neither the contract nor the operational activities undertaken by VEMCO compartmentalise themselves to individual elements of the step change as required by the AER. This because in practice, the activities themselves are not discrete elements but part of a larger exercise undertaken at an individual site.

(i) State CP/PC's best estimate of how many spans exceed 100m

There are 12,500 spans which require additional cutting work over the 5 years from 2011 to 2015, due to the increased minimum and required clearance spaces for spans exceeding 100 metres in Powercor Australia's LBRA.²¹

(j) Explain the work programs in the submissions have differed from those set out in CP/PC's Revised Regulatory Proposal

Please refer to the response to 1.2(b).

The work program in the 25 June submission has differed from that set out in Powercor Australia's Revised Regulatory Proposal due to the 2011 ESV exemption.

The incremental work load approved by the AER for Powercor Australia in relation to 100 metre span clearances as modified by the ESV 2011 exemption is shown below:²²²³ The total spans as approved by the AER for Powercor Australia in the Final Determination has been multiplied by the percentage of total spans compliant as required by the 2011 ESV exemption.

²⁰ Vegetation Witness Statement, Matthew Joyce, pg. 32, 33.

²¹ Vegetation Witness Statement, Matthew Joyce, pg. 34.

²² Energy Safe Victoria, 'Assessment by Energy Safe Victoria of EDPR Safety-Related Programs', 14 September 2010.

²³ Energy Safe Victoria, 'EXEMPTION FROM THE REQUIREMENT TO MAINTAIN A CLEARANCE SPACE IN ACCORDANCE WITH TABLES 1,2 AND 3 OF THE CODE OF PRACTICE OF ELECTRIC LINE CLEARANCE IN THE ELECTRICITY SAFETY (ELECTRIC LINE CLEARANCE) REGULATIONS 2010 granted to Powercor Australia in respect of certain requirements for the maintenance of a clearance space for certain electric lines, January 2011.

	30 June 2011	31 December 2011	30 June 2012	31 December 2012	30 June 2013	31 December 2013
% of total spans compliant	3%	13%	28%	58%	70%	100%
Establish New Clearances – Spans	375	1,625	3,500	7,250	8,750	12,500

Table 11: Powercor's' incremental work load for 100 meter span clearances per Revised Regulatory Proposal (modified by ESV 2011 exemption)

7.2 Provide the data referred to in paragraph 7.1:

(a) On a fully absorbed basis and

The Businesses cannot provide fully absorbed unit rates, as neither the contract nor the operational activities undertaken by VEMCO compartmentalise themselves to individual elements of the step change as required by the AER. This because in practice, the activities themselves are not discrete elements but part of a larger exercise undertaken at an individual site.

(b) On an average basis as opposed to a median basis

Please refer to the response to question 7.2(a) above.

The Businesses trust the information included in this submission and that of 25 June will assist the AER with its inquiries. Further, the Businesses look forward to meeting with the AER on 18 July to step through the responses contained in this submission.

If you have any further queries in relation to this submission, please do not hesitate to contact me at bcleeve@powercor.com.au or Ms Renate Tirpcou at rtirpcou@powercor.com.au.

Yours sincerely



Brent Cleeve
MANAGER REGULATION