



Final Decision

CitiPower Pty
Powercor Australia Ltd
Vegetation Management
Forecast Operating Expenditure Step Change
2011–15

Pursuant to Orders of the Australian Competition Tribunal in
Application by United Energy Distribution Pty Limited (No 2)
[2012] ACompT 8

August 2012

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Contents

Contents	i
1 Summary	1
2 Remitter Proposal	2
3 Reasons	4
3.1 Approach.....	4
3.2 Assessment.....	4
3.3 Benchmarking.....	8
4 Final Decision	9

1 Summary

On 19 November 2010, CitiPower Pty (**CitiPower**) and Powercor Australia Ltd (**Powercor**) each applied to the Australian Competition Tribunal (**Tribunal**) for review of various parts of their 2011–15 distribution determinations.¹ One common part of their reviews concerned the \$19.2 million and \$91.1 million of forecast operating expenditure for the vegetation management step change (**VM Step Change**) that the AER determined under the *National Electricity Rules (NER)* for CitiPower and Powercor respectively.²

The VM Step Change concerns the step up in operating expenditure associated with CitiPower and Powercor meeting their obligations under the *Electricity Safety (Electric Line Clearance) Regulations 2010 (Vic) (2010 Regulations)* in the 2011–15 regulatory control period. These regulations came into force on 29 June 2010 following recommendations contained in the Final Report of the 2009 Victorian Bushfires Royal Commission.³ The AER's final decision for the 2011–15 Victorian distribution determinations (**Final Decision**) determined a forecast operating expenditure of \$9.2 million and \$56.4 million for the VM Step Change.⁴ These allowances were determined by benchmarking the relevant unit costs of the other Victorian distribution network service providers (**DNSPs**), namely, Jemena Electricity Networks (Vic) Ltd (**JEN**), SPI Electricity Pty Ltd (**SP AusNet**) and United Energy Distribution Ltd (**UED**).

The Tribunal found that the AER failed to take into account the differences between CitiPower and Powercor and the other Victorian DNSPs but also found that CitiPower and Powercor had failed to provide sufficient information to the AER during the process leading up to the Final Decision.⁵ The Tribunal also identified the areas of information that it considered should have been provided to the AER and indicated that CitiPower and Powercor be provided with a further opportunity to justify their proposals.⁶

On 5 April 2012, the Tribunal ordered that the VM Step Change decision be remitted to the AER to be remade.⁷ Following this, CitiPower and Powercor respectively submitted revised forecast operating expenditure proposals of \$16.5 million and \$72.8 million (**Remitter Proposal**) and some information not previously provided to the AER. In assessing the Remitter Proposal, the AER requested further

¹ AER, *Final, CitiPower Pty, Distribution determination 2011–2015*, October 2010; AER, *Final, Powercor Australia Ltd, Distribution determination 2011–2015*, October 2010.

² NER, cll 6.5.6(c) and 6.12.1(4).

³ 2009 Victorian Royal Bushfires Commission, *Final Report*, July 2010.

⁴ AER, *Victorian Electricity Distribution Network Service Providers Distribution Determination 2011–2015 Final Determination*, October 2010, Section 7.5.1.1, p. 317 and Appendix L p. 265.

⁵ *Application by United Energy Distribution Pty Limited* [2012] ACompT 1, [660]–[670].

⁶ *Application by United Energy Distribution Pty Limited* [2012] ACompT 1, [668].

⁷ *Application by United Energy Distribution Pty Limited (No 2)* [2012] ACompT 8, Order 3 of ACT 8 of 2010 and Order 3 of ACT 9 of 2010.

information from CitiPower and Powercor on a number of occasions.⁸ CitiPower and Powercor were unable to provide some of the requested information.⁹

The AER has not changed its approach from the draft decision, which was published on 9 August 2012. No submissions from stakeholders were received in response to the AER's draft decision or CitiPower and Powercor's Remitter Proposal. Therefore the AER has no reason to depart from the draft decision.

Having assessed all of the relevant available information, for the reasons that follow, the AER is satisfied that the Remitter Proposal reasonably reflects the operating expenditure criteria having regard to the operating expenditure factors.¹⁰ This decision is consistent with the revenue and pricing principles (**RPP**), will contribute to the achievement of the national electricity objective (**NEO**) and is in the long-term interests of consumers.¹¹ The forecast operating expenditure for CitiPower and Powercor's VM Step Change for each regulatory year of the 2011–15 regulatory control period resulting from this decision is set out at Table 1.1.

Table 1.1 Final Decision: VM forecast operating expenditure step change (\$000, real 2010) for the 2011–15 regulatory control period

	2011	2012	2013	2014	2015	Total
Decision: CitiPower	1 304	3 856	4 922	3 276	3 101	16 460
Decision: Powercor	9 043	20 745	25 424	9 389	8 210	72 810

Source: AER analysis.

2 Remitter Proposal

The Remitter Proposal revises CitiPower and Powercor's forecast operating expenditure for the VM Step Change down from that which they previously proposed for in their revised regulatory proposals submitted on 22 June 2010 (**Revised Regulatory Proposals**). Table 2.1 sets out the proposed amounts in the Remitter Proposal, the Revised Regulatory Proposals and the amounts determined in the Final Decision.

⁸ AER, Email: *Re: ACT remittal of the vegetation management decision to the AER*, 5 June 2012; AER phone conversation with Brent Cleeve from CitiPower and Powercor concerning the calculation for the businesses' remitted proposal, 3 July 2012; AER, *Letter Re: Vegetation Management Opex Step Change*, 6 July 2012; AER meeting with CitiPower and Powercor, 18 July 2012.

⁹ CitiPower and Powercor, *Vegetation Management Tribunal Order*, 25 June 2012; CitiPower and Powercor, Email re: *Vegetation Management Material*, 5 July 2012; CitiPower and Powercor, *Letter Re: Vegetation Management Remittal*, 16 July 2012; CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012.

¹⁰ NER, cl 6.5.6(c).

¹¹ NEL, ss7, 7A and 16.

Table 2.1 CitiPower and Powercor revised regulatory proposals, remitter proposals and AER final decision amounts (\$000, real 2010)

	2011	2012	2013	2014	2015	Total
CitiPower						
Revised Regulatory Proposal 2010	4 175	3 723	3 692	3 703	3 902	19 194
Final Decision 2010	2 684	1 630	1 571	1 536	1 704	9 127
Remitter Proposal 2012	1 304	3 856	4 922	3 276	3 101	16 460
Difference	(1 380)	2 226	3 351	1 740	1 397	7 333
Powercor						
Revised Regulatory Proposal 2010	21 516	21 231	16 675	15 685	15 986	91 093
Final Decision 2010	16 593	15 811	9 731	7 039	7 251	56 425
Remitter Proposal 2012	9 043	20 745	25 424	9 389	8 210	72 810
Difference	(7 550)	4 934	15 693	2 350	958	16 385

Source: CitiPower; Powercor;¹² AER analysis.

CitiPower and Powercor submit that these revisions are due to:

- lower than expected actual operating expenditure
- an extension of the time granted by Energy Safe Victoria (**ESV**) to comply with the 2010 Regulations
- modification of their work program so that it was more consistent with the Final Decision.¹³

CitiPower and Powercor also submit that their remitter proposal is prudent and efficient because:

- the VEMCO costs that they incurred during 2011 and 2012 were subject to an efficiency carryover mechanism, namely the efficiency benefit sharing scheme (**EBSS**), which would penalise them for incurring inefficient expenditures and thereby provides them with an incentive to achieve least costs which is reflected in the VEMCO costs and entering into an inefficient contract would be irrational¹⁴
- vegetation management is the single greatest operating expenditure item across CitiPower and Powercor's businesses, and attracts greater management and Board oversight than any other cost item¹⁵

¹² CitiPower and Powercor, *Vegetation Management Tribunal Order*, 25 June 2012, p. 2.

¹³ CitiPower and Powercor, *Vegetation Management Tribunal Order*, 25 June 2012, p. 2

¹⁴ CitiPower and Powercor, *Letter Re: Vegetation Management Remittal*, 16 July 2012, pp. 9–11; CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, p. 3.

¹⁵ CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, p. 3; CitiPower and Powercor, *Letter Re: Vegetation Management Remittal*, 16 July 2012, p. 11.

- unnecessary transaction costs would have been incurred and compliance risks would have arisen had they changed from VEMCO to another service provider¹⁶
- considering the scale and complexity of the vegetation management program, it was not feasible for CitiPower and Powercor to conduct a competitive tender process or contract with a new provider.¹⁷

CitiPower and Powercor also submitted that the AER should not use the unit rates of JEN, SP AusNet and UED as a benchmark to determine their operating expenditure allowance, on the basis that their circumstances, including different terrains, average span length, density of vegetation, growth condition, 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, are not comparable.

3 Reasons

3.1 Approach

For the reasons set out in this section, the benchmarking approach to assessing VM Step Change opex that the AER applied in the Final Decision has been applied again in this decision, but in a modified form as discussed in section 3.3.¹⁸ The AER maintains this position notwithstanding CitiPower and Powercor's concerns regarding the use of benchmarking summarised above. The AER has taken this approach because it considers that the information provided by CitiPower and Powercor (during this and the previous 2011–15 distribution determination processes) does not allow the AER to undertake a comprehensive bottom-up cost build-up, as may have been contemplated by the Tribunal. It is therefore not possible to justify the amounts sought in the Remitter Proposal on this basis. Nevertheless, the AER recognises that other assessment techniques, such as top-down and comparative benchmark measures are legitimate ways of assessing the Remitter Proposal against the operating expenditure criteria, including the NEO and the RPP, which direct the AER to ensure that CitiPower and Powercor are provided with a reasonable opportunity to recover at least the efficient costs they incur in complying with a regulatory obligation or requirement.¹⁹ Further, as the 2010 Regulations constitute a regulatory obligation or requirement, it is clear some level of operating expenditure is required.

3.2 Assessment

It is clear that the Remitter Proposal is predicated on the costs of its third party contractor, VEMCO. CitiPower and Powercor did not undertake a competitive tendering process to engage VEMCO for the changed vegetation management services.²⁰ It is also clear that the VEMCO costs that CitiPower and Powercor have incurred exceed that of JEN, UED and SP AusNet. These Victorian DNSPs engaged a different third party contractor, Select Solutions. The Remitter Proposal was also not accompanied

¹⁶ CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, pp. 1–2.

¹⁷ CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, p. 2.

¹⁸ AER, *Victorian electricity distribution network service providers Distribution determination 2011–2015 Final Determination*, October 2010, Section 7.5.1.1, p. 317 and Appendix L p. 265.

¹⁹ NEL, s 7A(2)(b).

²⁰ CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, p. 2

by a transparent and justifiable unit cost build up. The absence of a competitive tendering process and the fact that VEMCO's costs exceed that of Select Solutions raises a real concern regarding whether the AER should be satisfied that the Remitter Proposal reasonably reflects the operating expenditure criteria.

These concerns are discussed in turn below.

3.2.1 Unit cost build-up

Given the unique nature of the operating expenditure involved in complying with the 2010 Regulations, a sufficiently detailed cost build up would allow the AER to properly assess the Remitter Proposal against the operating expenditure criteria. Moreover, prior to entering into a contractual relationship with a third party contractor (or providing new instructions with a third party contractor as is understood to be the case for CitiPower and Powercor) for vegetation management services, it is expected that a prudent DNSP would request that contractor to provide a detailed breakdown of their costs. It would also be expected that the breakdown would identify the unit rates build-up of their estimates, including in relation to the time and resources allocated to each separate constituent activity or cost component. Indeed, it is also expected that a prudent DNSP, such as CitiPower and Powercor, would have this type of information available to it and if not, would have undertaken the necessary due diligence to obtain this information. These expectations are echoed by the information that the Tribunal considered was required for the AER to fully analyse the CitiPower and Powercor's VM Step Change operating expenditure proposal at the revised regulatory proposal stage.²¹

On a number of occasions, the AER requested this type of information from CitiPower and Powercor.²² CitiPower and Powercor were only able to provide an estimate of the average time for each service. This information (which in any case could not be reconciled to the individual service crew information) alone is not enough for the AER to be satisfied that the Remitter Proposal reasonably reflects the operating expenditure criteria.

CitiPower and Powercor have stated that they do not have any other type of cost break down/unit cost information in relation to the VM Step Change.²³

3.2.2 Efficiency carryover mechanism/EBSS

As noted above, CitiPower and Powercor submit that entering into an inefficient contract given the EBSS applies to it would be irrational.

The EBSS provides CitiPower and Powercor with incentives to achieve least costs and penalises them for inefficient outcomes.²⁴ It operates by considering their actual operating expenditure against

²¹ *Application by United Energy Distribution Pty Limited* [2012] ACompT 1, [660].

²² AER, *Email: Re: ACT remittal of the vegetation management decision to the AER*, 5 June 2012; AER phone conversation with Brent Cleeve from CitiPower and Powercor concerning the calculation for the businesses' remitted proposal, 3 July 2012; AER, *Letter Re: Vegetation Management Opex Step Change*, 6 July 2012; AER meeting with CitiPower and Powercor, 18 July 2012.

²³ CitiPower and Powercor submit that this is because of a number of reasons, including that CitiPower, Powercor and VEMCO do not track costs in relation to specific step changes, that the activities that constitute the vegetation management service 'are not discrete elements but part of a larger exercise undertaken at an individual site' and the final sum payable under its contract with VEMCO is the result of a negotiation and for VEMCO to disclose this type of information would undermine its competitiveness in the market place. See CitiPower and Powercor, *Letter Re: Vegetation Management Remittal*, 16 July 2012, p. 22. CitiPower and Powercor, *Vegetation Management Tribunal Order*, 25 June 2012, p. 11.

forecasts made prior to that regulatory control period. It then works by applying those differences in future regulatory years to either reward or penalise CitiPower and Powercor. Importantly, however, the incentive for CitiPower and Powercor to only incur efficient expenditure arises once a forecast operating expenditure allowance has been determined.

The EBSS does not operate to provide an incentive on CitiPower and Powercor in respect of the forecast operating expenditure proposal it might submit or to encourage them to not submit an inflated forecast operating expenditure proposal, particularly in relation to step-changes which represent a departure from historical practice. Instead, in this regard, it operates to encourage CitiPower and Powercor to only incur efficient costs within the forecast operating expenditure determined in its distribution determination. Under the EBSS, a DNSP may have the incentive to inflate their proposed forecast operating expenditure for the reason that if they subsequently achieve reduced actual costs, they will benefit from the scheme. Conversely, if a firm is incurring excessive costs they have a strong incentive to ensure that the forecasts used for the purposes of the EBSS are set at least equal to actual costs.

Indeed, CitiPower and Powercor have reduced the forecasts by \$14 million (\$2010) since their revised regulatory proposal, demonstrating that they had previously over-forecast their proposed forecast operating expenditure allowances.²⁵ The Remitter Proposal effectively asks for the forecasts for the vegetation management service to be set equal to the contracted cost of these services for the first four regulatory years of the 2011–15 regulatory control period. As such, it is possible that the Remitter Proposal might be overstating the actual costs that would be required to meet the 2010 Regulations. Therefore, the fact the EBSS operates does not in itself indicate whether the Remitter Proposal is efficient or prudent.

3.2.3 Board oversight and the absence of a competitive tendering process

In relation to competitive tendering, CitiPower and Powercor stated:

1. the scale and complexity of the vegetation management program requires at least a 9 month tender process. It was not feasible for the Businesses to conduct such a tender process in response to the enactment of the 2010 Regulations.
2. the ability for an alternative vegetation management service provider to resource itself in such a short time frame was not feasible.
3. a significant investment in field, office and management resources was required to ensure compliance with the 2010 Regulations. A vegetation management contractor would need certainty in order to up scale its capability.
4. it is impossible and not commercial to contract out just the services for the vegetation management step changes. The operational activities undertaken by any vegetation management service provider do not compartmentalise themselves to individual elements of the step change. This is because in practice, the activities themselves are not discrete elements but part of a larger exercise undertaken at an individual site.²⁶

CitiPower and Powercor also stated that since vegetation management is the single greatest operating expenditure item, it attracts greater management and Board oversight than any other cost

²⁴ CitiPower and Powercor, *Letter Re: Vegetation Management Remittal*, 16 July 2012, pp. 2 and 11; CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, p. 3.

²⁵ CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, p. 3.

²⁶ CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, pp. 1–2.

item.²⁷ However, CitiPower and Powercor's decision not to conduct any form of competitive tender process for vegetation management services, even for the price discovery purposes, raises concerns as to whether they acted prudently. Further, CitiPower and Powercor did not provide any information that substantiated that their conduct was prudent.

It is possible that the transaction costs CitiPower and Powercor would incur in terminating its contract might have outweighed any savings that might be gained by changing service providers. However, these transaction costs have not been quantified.

Nor has any other case been advanced as to the costs or benefits of undertaking or not undertaking a competitive tendering process or some other form of due diligence for the purposes of discovering what might be the most efficient cost for vegetation management services. While the AER accepts that it may not have been commercially viable to contract out all of the vegetation management services required to meet the 2010 Regulations, it does not follow that CitiPower and Powercor were precluded from at least seeking quotes from other vegetation management providers for due diligence purposes.

There has also been no indication that any prudent risk analysis was undertaken, risk management strategies had been applied or that contracting with VEMCO might mitigate any relevant risks. The submitted inability of other vegetation management service providers to meet CitiPower and Powercor's requirements under the 2010 Regulations was not substantiated.

Additionally CitiPower and Powercor submitted that VEMCO had a proven history of delivering on the compliance clearance requirements in a cost effective manner, and supported this contention by observing that they were paying less in real dollar terms for vegetation management services than in 1996. However, for all the other Victorian DNSPs, vegetation management costs had increased in real terms.²⁸

Finally, there is no evidence to support the contention that it is not in VEMCO's interests to profit excessively from CitiPower and Powercor. The submission that VEMCO would not do this because it would be injurious to the likelihood of it successfully winning future tenders is merely speculative and a commercial matter for VEMCO.

The AER has not found any of these contentions persuasive for the reason that it has been unable to assess their veracity rather than because they may not in themselves be plausible.

3.2.4 Cutting Cycles

Justification was sought from CitiPower and Powercor regarding their different cutting strategies in comparison to the other Victorian DNSPs. In response, CitiPower and Powercor provided a calculation that demonstrates an increase in costs for Powercor relative to SP AusNet (being the most comparable DNSP with substantial assets exposed to high bushfire risk) of \$13 million. This calculation has been verified based on actual data for Powercor spans, using SP AusNet's unit rates which were lower than Powercor's equivalent unit rates. As such, this demonstrates that the choice of the three-year clearing cycle is prudent and efficient.

²⁷ CitiPower and Powercor, *Letter Re: Vegetation Management Remittal*, 16 July 2012, p. 11.

²⁸ CitiPower and Powercor, *Letter Re: Vegetation Management Opex Step Change*, 20 July 2012, p. 2.

3.2.5 National Electricity Objective and the Revenue and Pricing Principles

With the exception of the information in relation to cutting cycles, the information provided by CitiPower and Powercor (during this and the previous 2011–15 distribution determination processes) has not allowed the AER to properly assess whether it is satisfied the Remitter Proposal reasonably reflects the operating expenditure criteria.

However, the RPP require that CitiPower and Powercor should be provided with a reasonable opportunity to recover at least the efficient costs it incurs in complying with a regulatory obligation or requirement.²⁹ The 2010 Regulations constitute a regulatory obligation or requirement. As such, it is clear that some additional level of operating expenditure is required. The AER is of the view that compliance with the 2010 Regulations, which promotes the safe operation of the CitiPower and Powercor's distribution networks, is in the long-term interests of consumers. Some level of expenditure in this regard therefore will contribute to the achievement of the NEO.

Therefore, to properly assess whether the Remitter Proposal reasonably reflects the operating expenditure criteria, the AER has again applied a benchmarking approach.

3.3 Benchmarking

The AER accepts CitiPower and Powercor's submission that it should not benchmark the unit costs of UED, SP AusNet and JEN to determine a forecast operating expenditure allowance for the VM Step Change without taking into account any relevant differences. The Tribunal found that the AER did not take sufficient regard of this in its previous benchmarking work on the VM step change as part of its Victorian determination Final Decision.

However, there are some common characteristics across the Victorian DNSPs that can usefully form the basis of a benchmarking analysis in these circumstances and which are not undermined by the differences between the Victorian DNSPs. The AER's benchmarking analysis as part of this Remittal has further considered the possible factors which can be used to better compare the Victorian DNSPs in relation to their vegetation management practices.

For example, SP AusNet's distribution network is comparable in size and scope of service to rural customers with Powercor. Similarly, JEN and CitiPower are to some extent comparable given they both operate distribution networks in urban areas, as does UED. Further, SP AusNet services the eastern half of Victoria where the terrain is more generally mountainous than in the western half of Victoria which Powercor services. This would suggest that the vegetation management costs SP AusNet incurs should be greater than that of Powercor. However, this may be to some extent offset by the greater distances that need to be travelled in the western half of Victoria.

In the AER's opinion, a cost ratio on the basis of a proportion of line length may be an appropriate indicator for the comparison of costs. This cost ratio reflects the physical size of the network under consideration and thus factors the scale of the network into the calculation and provides a useful indication of relative efficiency. In calculating these cost ratios, comparability with the Remitter Proposal was maintained by aggregating the capital expenditure and operating expenditure for both insulated cable lengths and exemptions for each of JEN, UED and SP AusNet. The AER notes that this ratio does not account for differences in species type, rainfall, terrain and vegetation regrowth rates.

²⁹ NEL, s 7A(2)(b).

The AER considered but rejected customer numbers, energy delivered and maximum demand as potential benchmark ratios because, for vegetation management activity, each of these ratios gives limited direct information on the relative efficiency of each business or does not adequately account for the different operating environment of each business.

Figures 1.1 and 1.2 below sets out the cost ratios which compare the proposed forecast operating expenditure in the Remitter Proposal against the equivalent allowances that the AER determined for JEN, UED and SP AusNet in the Final Decision.

Figure 1.1 Removal of exemptions: step change opex over line length

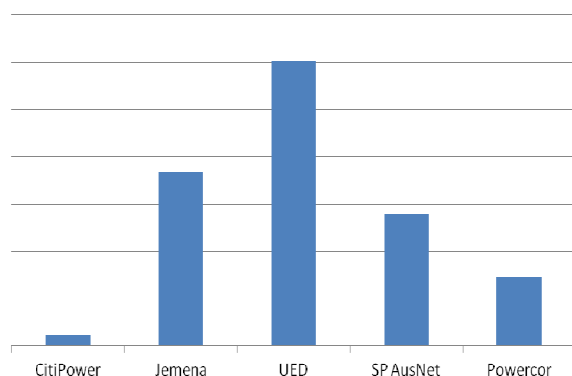
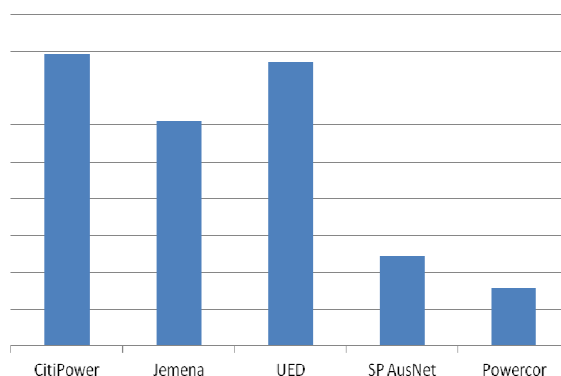


Figure 1.2 Clearance space around insulated lines: step change opex over line length



Source: AER analysis.

Note: Unit cost information is confidential and, as such, the vertical scale has been removed to prevent back casting.

Figure 1.1 demonstrates that Powercor's ratio is lower than that of SP AusNet, arguably its closest comparator. It also demonstrates that CitiPower's ratio is the lowest of all the Victorian DNSPs, which reflects the low amount sought for this activity simply because CitiPower was previously less reliant on exemptions in respect of its network than any of the other Victorian DNSPs.

Figure 1.2 demonstrates that Powercor's ratio for insulated cables is also lower than the other Victorian DNSPs. It also demonstrates that CitiPower's ratio is higher than the other Victorian DNSPs, which is consistent with the higher customer density in its distribution network area and the associated traffic management costs.³⁰

The analysis in Figures 1.1 and 1.2 demonstrates that the Remitter Proposal compares well to the forecast operating expenditure allowances the AER determined in the Final Decision for JEN, UED and SP AusNet. This analysis, which factors in network scale effects, was not undertaken by the AER in its earlier determination process. As such, it represents a superior assessment approach. This supports the efficiency and prudence of the Remitter Proposal. It has also satisfied the AER that the Remitter Proposal reasonably reflects the operating expenditure criteria.

4 Final Decision

The AER has not changed its approach from the draft decision, which was published on 9 August 2012. No submissions from stakeholders were received in response to the AER's draft decision or

³⁰ AER, *Victorian electricity distribution network service providers Distribution determination 2011–2015, Final Determination*, October 2010, Appendix L, p. 285.

CitiPower and Powercor’s Remitter Proposal. Therefore the AER has no reason to depart from the draft decision.

On the basis of the benchmarking analysis undertaken, the AER is satisfied, having regard to the operating expenditure factors, that the Remitter Proposal reasonably reflects the operating expenditure criteria. This decision is consistent with the RPP as it will provide CitiPower and Powercor the opportunity to recover its efficient costs in complying with the 2010 Regulations. It will also contribute to the NEO because compliance with the 2010 Regulations, which promotes the safe operation of the CitiPower and Powercor’s distribution networks, is in the long-term interests of consumers.

To give effect to this decision, the AER will amend:

- Tables 6 and 7 of the document: *CitiPower Pty Distribution Determination 2011–2015*, October 2010 and
- Tables 6 and 7 of the document: *Powercor Australia Distribution Determination 2011–2015*, October 2010,

to incorporate the forecast operating expenditure values for each regulatory year of the 2011–15 regulatory control period set out in Table 4.1.

Table 4.1 Final Decision: VM forecast operating expenditure step change (\$000, real 2010) for the 2011–15 regulatory control period

	2011	2012	2013	2014	2015	Total
Decision: CitiPower	1 304	3 856	4 922	3 276	3 101	16 460
Decision: Powercor	9 043	20 745	25 424	9 389	8 210	72 810

Source: AER analysis