09 February 2018

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: AERinquiry@aer.gov.au

Response to Review of Operating Environment Factors for Distribution Network Service Providers: Draft Report

Dear Mr Roberts,

Energy Networks Australia welcomes this opportunity to make a submission concerning the Australian Energy Regulator's (AER's) draft report 'SapereMerz review of operating environment factors'.

Our association represents the businesses operating Australia's electricity transmission and distribution, and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

Energy Networks Australia supports the AER's undertaking of this review, as part of the continuous improvement of benchmarking techniques used by the AER. While pursuit of robust benchmarking techniques is equally important for informing future AER determinations on operating expenditure, this submission focuses specifically on the findings and recommendations put forward by SapereMerz in relation to vegetation management operating environment factors (OEF).

Energy Networks Australia has undertaken several pieces of work related to better understanding the drivers of variation in vegetation management costs and approaches. Energy Networks Australia's experience in this space concurs with the report findings that given the complex interactions between overhead network size and location, vegetation density and growth habit differences (spatial and temporal), land use, climate, mandated standards, and allocation of legal responsibility, 'the full set of vegetation management cost drivers is largely outside the control of the network service providers' (p. 48).

Such external cost drivers also include the variability of labour hire markets, which can be significantly influential for many DNSPs costs, when outsourcing their vegetation management operations.

A report[1] provided by GHD to Energy Networks Australia in 2016 stated 'the range and degree of variability issues discussed conspire to make benchmarking between DNSPs highly problematic. Over any benchmarking period chosen it will be extremely difficult to conduct an apples-to-apples comparison' (GHD 2016, p.29).

Work undertaken by Energy Networks Australia has shown that effective and efficient vegetation management requires a systematic approach that considers the safety, regulatory and financial impact on the whole lifecycle performance of the network. Such an approach is the foundation of risk management and asset management systems. Energy Networks Australia is currently developing a guideline for vegetation risk management, incorporating risk-focused vegetation management program design, aligned with asset management system principles and would be keen to engage with the AER and other stakeholders as this process goes forward.

If you would like to know more about Energy Networks Australia's work in this space, please contact our Senior Program Manager – Asset Management, Heath Frewin on (02) 6272 1555 or hfrewin@energynetworks.com.au

Sincerely,

Andrew Dillon

Chief Executive Officer

[1] 'Electricity Network Service Provider Vegetation Management Variability Report' (GHD 2016) http://www.energynetworks.com.au/sites/default/files/ena_nsp_veg_mgt_var_report_20160330_final.pdf