

Your reference:

In reply quote: R0000110220

11 February 2015

Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606
Moonah TAS 7009

Mr Warwick Anderson
General Manager
Network Investment and Pricing
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

Draft decision Essential Energy distribution determination – vegetation management contracting model

Tasmanian Networks Pty Ltd (**TasNetworks**) welcomes the opportunity to comment on the draft decision made by the Australian Energy Regulator (**AER**) in relation to the distribution determination that will apply to Essential Energy (**Essential**) for the regulatory control period commencing 1 July 2015 (**Draft Determination**).

TasNetworks was formed on 1 July 2014, by combining the operations of the transmission network service provider, Transend Networks, and the distribution network service provider Aurora Energy. TasNetworks is the sole provider of regulated transmission and distribution network services in the Tasmanian jurisdiction.

TasNetworks is concerned at certain statements that have been made by the AER within the Draft Determination surrounding the vegetation management practices of Essential that purport to indicate that TasNetworks shares the view of potential inefficiencies concerning the contracting model adopted by Essential.

At page 7-100 of Attachment 7: Operating Expenditure of the Draft Determination, the AER states:

“Other distribution network service providers share the view that hourly rate contracting agreements are inefficient.”²¹⁶

The AER references (at footnote 216) this statement to a submission made by Aurora Energy (**Aurora**) on 20 June 2014 to the AER’s draft determination made in response to ActewAGL’s cost pass through application.

The matters that must be addressed arising from the statements made by the AER is that:

- firstly , Aurora and its successor entity, TasNetworks, did not express a view that hourly rate contracting was inefficient in its response to the ActewAGL cost past through application; and
- secondly, the submission made by Aurora on 20 June 2014 was made for the sole purpose of indicating Aurora’s position that the report should not be utilised by the AER in considering the circumstances of any other network service provider.

In February 2011 GHD provided a report for Aurora after undertaking a review of the contracting model that existed within Aurora at that time. Aurora had commissioned GHD to conduct a review of its vegetation management contracting model with a view to identifying current model enhancements or new contracting models that could deliver significant cost savings for Aurora. This report was provided confidentially to the AER in October 2011 in response to questions raised by the AER regarding the operating expenditure proposed by Aurora as a component of its regulatory proposal for the 2012-17 regulatory control period. The provision of this report forms the basis of the interactions between the AER and Aurora as a component of the ActewAGL cost pass through application.

In April 2014 the AER contacted Aurora and indicated that it wished to utilise the GHD report provided by Aurora in the AER's consideration of the ActewAGL cost pass through application. Aurora indicated that it was concerned that the AER intended to release a confidential document and further indicated that it was not appropriate to apply the findings of the report to the operations of ActewAGL. The AER confirmed in writing in May 2014 that it intended to utilise its powers under the National Electricity Law (NEL) to disclose the report provided by Aurora and that should Aurora not provide a redacted version of the report that the AER would produce its own redacted version. To ensure the protection of both Aurora and GHD, Aurora provided a redacted version of the report to the AER and further stated that consent to release the report was not provided by either Aurora or GHD and that the AER would be disclosing the report in accordance with the provisions of the NEL.

The AER utilised the GHD report as part of its considerations regarding the ActewAGL cost pass through application and made reference to the recommendations contained within the report as a component of its draft determination into the cost pass through application. Aurora responded to the draft cost pass through determination stating that the GHD report was not applicable to the circumstances of ActewAGL and that to fully understand the contracting model that was undertaken by ActewAGL a further independent review would be necessary.

In its findings for Aurora it is notable that GHD made the following observations:

- *Changing from an hourly rate to a unit rate style contract will bring about new and different contract management challenges. Unit rate contracts can in practice be less flexible operationally than hourly rate contracts.*
- *Contracting model and cost comparison between distribution businesses operating different networks in different environmental conditions is problematic. Contract specifications, inclusions and exclusions vary significantly, and implementation arrangements vary even more widely (eg. levels of resourcing applied to contract management). Meaningful cost comparison is not possible without data on the geographic area subject to the contract and the nature of the vegetation within the contract area.*

At the time of the report Aurora was considering the implementation of unit rate contracts and GHD stated that the implementation of this type of contract may in fact be less efficient than an existing hourly rate contract. GHD clarified this assessment by saying that in the circumstances of Aurora, the unit rate contract would however deliver improvements to the business.

TasNetworks therefore asks that the AER remove the reference to the Aurora submission (footnote 216) as the submission provided by Aurora argued against the application of the report findings to ActewAGL and indeed any other network service provider. To this end TasNetworks does not support the view that hourly rate contracting is less efficient and in certain circumstances may indeed be the most appropriate form of contracting model.

If you have any queries on this submission please contact Chantal Hopwood on 0400 827 037 or via email at chantal.hopwood@tasnetworks.com.au.

Yours sincerely

A handwritten signature in blue ink that reads "Bess Clark". The signature is written in a cursive style with a large, stylized initial "B".

Bess Clark
GM – Strategy & Stakeholder Relations