



**CITIPower PTY and POWERCOR  
AUSTRALIA LTD**

**VEGETATION MANAGEMENT:  
TRIBUNAL ORDER**

**25 June 2012**

**PUBLIC VERSION**

**CITIPower PTY & POWERCOR AUSTRALIA LTD'S VEGETATION  
MANAGEMENT SUBMISSION**

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**A. Summary**

On 25 May 2012, the Australian Energy Regulator (**AER**) provided a letter requesting further information from CitiPower Pty and Powercor Australia Ltd (**Businesses**) regarding the vegetation management step change by 25 June 2012.<sup>1</sup>

This submission is pursuant to s71P(2) of the *National Electricity Law* (**NEL**) to assist the AER in its reconsideration of the vegetation management opex step change.

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 31<sup>st</sup> of December 2013. As a result, the expenditure sought in this submission reflects the revised contract values with VEMCO for 2011 and 2012, and the forecast Board approved contract values for 2013 and 2014.

The AER have sought information in relation to the build up of the unit rates that underpin the proposed vegetation management expenditure forecasts. The Businesses understand why the AER has pursued this level of inquiry. It has attempted in good faith to provide the most up to date information, including the relevant contracts which provide the lump sum payments and a break down of the unit rates that underpin the proposed vegetation management expenditure. However, 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 is because in practice, the activities themselves are not discrete elements but part of a larger exercise undertaken at an individual site.

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<sup>1</sup> Letter from AER to CitiPower and Powercor Australia, 25 May 2012.

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Powercor Australia's proposed vegetation management step change in real 2010 dollar terms is set out in Table A1.

	\$000 (real 2010)				
	2011	2012	2013	2014	2015
Actual/forecast contract costs	25,691	38,212	43,990	28,078	27,373
Total final decision allowance	33,308	33,158	27,601	25,561	26,331
<b>Incremental step change</b>	<b>(7,618)</b>	<b>5,054</b>	<b>16,389</b>	<b>2,517</b>	<b>1,042</b>
Impact of real price movements	(68)	120	696	167	84
<b>Un-escalated incr. step change</b>	<b>(7,550)</b>	<b>4,934</b>	<b>15,693</b>	<b>2,350</b>	<b>958</b>

Table A1: Incremental step change allowance – Powercor Australia

CitiPower's proposed vegetation management step change in real 2010 dollar terms is out in Table A2.

	\$000 (real 2010)				
	2011	2012	2013	2014	2015
Actual/forecast contract costs	2,271	4,924	6,134	4,530	4,416
Total final decision allowance	3,662	2,646	2,640	2,672	2,902
<b>Incremental step change</b>	<b>(1,391)</b>	<b>2,278</b>	<b>3,494</b>	<b>1,858</b>	<b>1,515</b>
Impact of real price movements	(12)	53	144	118	118
<b>Un-escalated incr. step change</b>	<b>(1,379)</b>	<b>2,226</b>	<b>3,351</b>	<b>1,740</b>	<b>1,397</b>

Table A2: Incremental step change allowance – CitiPower

## A1. Introduction

The Businesses have engaged an independent, third party vegetation management contractor, VEMCO, to undertake vegetation management on their networks in accordance with the requirements of the electric line clearance regulations applicable. VEMCO is a vegetation management specialist, providing vegetation management services to a range of industries, including electricity, telecommunications, road and rail.<sup>2</sup>

The supply of vegetation management services by VEMCO to the Businesses is governed by a contract between VEMCO and Powercor Australia, titled '*Conditions of Contract, Supply of Vegetation Management Services*' (**original contract**) entered into in December 2008.<sup>3</sup> The contract had an initial term of three years (from 1 January 2009 to 31 December 2011), but has exercised options to extend the contract for an additional two

<sup>2</sup> <http://www.vemco.com.au>.

<sup>3</sup> Powercor Australia Ltd and VEMCO contract, Supply of Vegetation Management Services, 12 December 2008.

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years. There is a further option to extend the contract for a third year (i.e. to 31 December 2014) which it is presently the Businesses intention to exercise.

The contract with VEMCO requires the provision of a wide range of defined vegetation management and related services, largely on the basis of lump sum payments. The lump sum amounts are set out in the contract for each calendar year (or are set early in the calendar year) and are paid in instalments over the course of the year.

The original contract with VEMCO was entered into in 2008 on the basis of the electric line clearance regulations and compliance practices in place at that time. Both of these have changed over time. The required level of compliance with the regulations moved from 'practical' to 'literal', and the regulations themselves (including the exemptions from the regulations) have changed over time. The contract with VEMCO (including the services to be provided and the quantum of the lump sum payments) has been varied over time to reflect these changes.

This submission contains the following sections:

- Section A provides background to the vegetation management step change;
- Section B describes what has progressed, such as the re-negotiation of the vegetation management contract, since the Businesses submitted the Revised Regulatory Proposal;
- Section C provides an explanation of the contract structure;
- Section D outlines the vegetation management expenditure incurred since July 2010;
- Section E sets out the Businesses' revised step change; and
- Section F responds to each of the AER questions.

## **A2. Appeal**

On 29 October 2010, the Australian Energy Regulator (**AER**) issued its *Victorian electricity distribution network service providers: Distribution determination 2011 to 2015 Final decision (Final Determination)* which determines the Businesses annual revenue requirement for each year of the 2011 to 2015 regulatory control period.

In its Final Determination, the AER did not accept the total of the forecast operating expenditure included in the Businesses' revised regulatory proposals. In particular, the AER did not include, in its estimate of the Businesses' required operating expenditure for the regulatory control period, the total amount of its proposed 'step change' to account for the incremental expenditure on vegetation management relative to the expenditure incurred in the 2009 base year. This proposed 'step change' or incremental expenditure relates to the changed regulatory obligation associated with the termination of the *Electricity Safety*

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(*Electric Regulations 2005 (2005 Regulations)*) and the commencement of the 2010 Regulations.

For CitiPower, the AER did not accept the total of the forecast operating expenditure in relation to changes in two obligations:

- the 2010 Regulations removed the opportunity for Distribution Network Service Providers (**DN**SPs) to avoid the strict consequences of applying cl 9.1 of the 2005 Regulations; and
- the 2010 Regulations require an increase in the minimum clearance space for spans between poles which exceed 100 meters in length. Table 2 in the 2010 Regulations specifies the clearance spaces.

For Powercor Australia, the AER did not accept the total of the forecast operating expenditure in relation to changes in three obligations:

- the 2010 Regulations removed the opportunity for DN
- the 2010 Regulations require an increase in the minimum clearance space for spans between poles which exceed 100 meters in length. Table 2 in the 2010 Regulations specifies the clearance spaces; and
- a specific exemption granted to Powercor Australia under the 2005 Regulations in respect of high bushfire risk areas (**HBRA**) was removed. It was not continued in any ongoing legislation or instrument after the making of the 2010 Regulations.

On 19 November 2010, the Businesses applied to the Australian Competition Tribunal (**ACT**) for leave to apply for review of the regulatory decision of the AER under subsection 71B(1) of the NEL.

Pursuant to s71P (2)(b) of the NEL, the ACT remitted the Final Determination to the AER to be remade in light of a reconsideration by the AER of the Businesses' claims in accordance with the *National Electricity Rules (NER)* in respect of the vegetation management opex step change claimed by the Businesses.<sup>4</sup>

On 25 May 2012, the AER provided a letter setting out a proposed timetable to implement the Tribunal's Orders. The AER required the Businesses to provide further information regarding the vegetation management step change by 25 June 2012.<sup>5</sup>

This submission is pursuant to s71P(2) of the NEL to assist the AER in its reconsideration of the vegetation management opex step change.

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<sup>4</sup> Application by United Energy Distribution Pty Limited (2012) ACompT1.

<sup>5</sup> Letter from AER to CitiPower and Powercor Australia, 25 May 2012.

### **A3. Proposed step change**

The step change costs proposed by the Businesses in their Revised Regulatory Proposals were estimated as the difference between the 2009 vegetation management costs and the forecast vegetation management costs over the 2011-15 regulatory control period.

The Businesses' vegetation clearance contractor, VEMCO considered the cost impact of each of the changes between the 2010 Regulations and the 2005 Regulations based on legal advice on those changes provided by DLA Phillips Fox dated 21 June 2010<sup>6</sup>. On 13 July 2010, VEMCO provided a cost forecast for the 2011-15 regulatory control period which reflected the increased costs the Businesses were required to pay in order to be compliant with the 2010 Regulations.<sup>7</sup> It was assumed that compliance would be achieved by the end of the regulatory control period.

### **B. Progress since July 2010**

Since 13 July 2010, 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 ESV requiring the Businesses to deliver a three year compliance plan. The exemption requires the Businesses to achieve compliance with the 2010 Regulations given the dates specified in the exemption. Refer to section B1. of the submission.

The Businesses have provided in the submission updated forecasts which reflect the locked in contract values for 2011 and 2012. Refer to section E. of the submission which sets out the revised vegetation management step change.

### **B1. Exemptions**

In recognition that full compliance with the 2010 Regulations would take some time, on 18 February 2011, ESV granted new exemptions to the Businesses (**2011 Exemptions**). The 2011 Exemptions provided for a transition period during which the Businesses could achieve compliance with the 2010 Regulations. Under the 2011 Exemptions, full compliance with the 2010 Regulations is required by 31 December 2013.

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<sup>6</sup> Letter from DLA Phillips Fox to CitiPower and Powercor Australia, 21 June 2010.

<sup>7</sup> Letter from VEMCO to CitiPower and Powercor Australia, 13 July 2010.

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The 2011 Exemptions provide for exemptions from the requirements in clauses 10, 11 and 12 and Tables 1, 2 and 3 of the 2010 Regulations as follows:

Area/lines to which exemption related	Description of exemption
<b>HBRA (other than aerial bundled cable or insulated cable)<sup>8</sup></b>	<p>Exemption from the requirement to maintain clearance spaces set out in Table 3 of the 2010 Regulations provided the business:</p> <ul style="list-style-type: none"> <li>i) complies with clause 11 and Table 11.1 of the 2005 Regulations during the period commencing 15 December or the commencement date of the declared fire season, whichever comes first, until 31 March of the following year; and</li> <li>ii) implements a transition plan which is designed to achieve compliance with clause 12(4)(a) of the 2010 Regulations in accordance with the program specified in clause 4.4(a) of the 2011 Exemptions (culminating in compliance by 31 December 2013); and</li> <li>iii) implements a transition plan which is designed to achieve compliance with clause 12(4)(b) of the 2010 Regulations by 31 December 2011.</li> </ul>
<b>LBRA (other than aerial bundled cable or insulated cable)<sup>9</sup></b>	<p>Exemption from the requirement to maintain clearance spaces set out in Table 2 of the 2010 Regulations provided the business:</p> <ul style="list-style-type: none"> <li>i) in respect of 66kv powerlines, complies with clause 10 and Tables 10.1, 10.2 and 10.3 (as applicable) of the 2005 Regulations; and</li> <li>ii) in respect of powerlines up to and including 22kv, maintains a biennial clearance cycle while it implements a transition plan which is designed to achieve compliance with clause 11(4)(a) of the 2010 Regulations in accordance with the program for compliance set out in clause 4.3(a) of the 2011 Exemptions (culminating in compliance with the 2010 Regulations by 31 December 2013); and</li> <li>iii) implements a transition which is designed to achieve compliance with clause 11(4)(b) of the 2010 Regulations by 31 December 2011.</li> </ul>
<b>Aerial bundled cable or insulated cable<sup>10</sup></b>	<p>Exemption from the requirement to maintain clearance spaces set out in Table 1 of the 2010 Regulations provided the business:</p> <ul style="list-style-type: none"> <li>i) complies with the requirements in clause 9 and Table 9.3 of the 2005 Regulations is achieved; and</li> <li>ii) implements a transition plan which is designed to achieve compliance with clause 10(3) of the 2010 Regulations in accordance with the program for compliance set out in clause 4.2 of the 2011 Exemptions (culminating in compliance with the 2010 Regulations by 31 December 2013).</li> </ul>

**Table B1: Summary of 2011 Exemption**

<sup>8</sup> Clause 2.3 of the 2011 Exemptions.

<sup>9</sup> Clause 2.2 of the 2011 Exemptions.

<sup>10</sup> Clause 2.1 of the 2011 Exemptions.



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**B2. Deed of Variations**

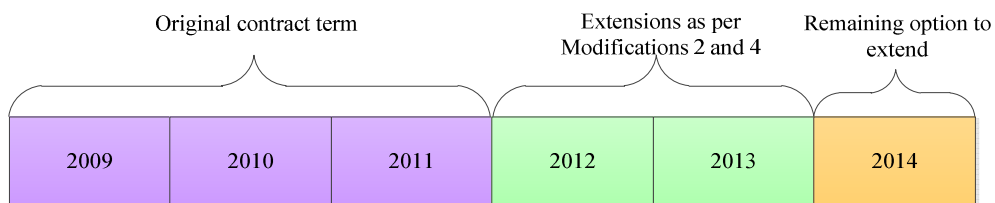
On 12 December 2008 the original contract was issued. Consistent with the Businesses' discussions with ESV at the time, the Original Contract was intended to provide for compliance with the 2005 Regulations as modified by the 2005 Exemptions in low bushfire risk areas (**LBRA**) by 31 December 2014 (clause 2.4(a) of Schedule 1<sup>11</sup>).

Accordingly, the Original Contract has since been varied by:

- a deed of variation dated 16 December 2009 (**2009 Deed of Variation**), to provide for compliance with the 2005 Regulations as modified by the 2005 Exemptions in LBRA by 31 December 2012 rather than 31 December 2014;
- a deed of variation dated 2011 (**2011 Deed of Variation**), to provide for compliance with the 2010 Regulations as modified by the 2011 Exemptions in 2011; and
- a deed of variation dated 2012 (**2012 Deed of Variation**), to provide for compliance with the 2010 Regulations as modified by the 2011 Exemptions in 2012 and which set out revised rates for Lump Sum Services effective from 1 January 2012.

The Original Contract has also been varied by five 'Modifications'. The Original Contract, the Deeds of Variation and each of the Modifications are included as Attachments 7 to 15 to this submission.

The contract commenced on 1 January 2009 (clause 1.1(a) and item 2 in the Annexure) with an initial term of three years (clause 1.1(b) and item 3 in the Annexure), but included three options to extend, each for a period of 12 months (clause 1.2(a) and item 4(a) in the Annexure). Modifications 2 and 4 provided for 12 months extensions to the contract to 31 December 2012 and 31 December 2013 respectively. The term of the contract with VEMCO is summarised in the figure below.



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<sup>11</sup> Unless otherwise stated, references to provisions in this report are references to the original contract. While we observe that the 2011 Deed of Variation provided for the re-numbering of provisions (clause 2.1(d)), for ease of reference we refer to the original numbering.

**C. Services to be Provided**

VEMCO is required, under the existing contractual arrangements, to provide 'Lump Sum Services', 'Additional Services', 'Full Compliance Services' and '2012 Full Compliance Services'. The contract provides that the Businesses may vary the scope and extent of the 'Services' to be provided, and that in such circumstances, the parties must try to agree on the price and the time for a variation wherever prior to the execution of the variation (clause 3.3).

**C1. Lump Sum Services**

'Lump Sum Services' are services in respect of the distribution areas of the Businesses to ensure that vegetation clearances from overhead powerlines satisfy the requirements of:

- i) 2005 Regulations as amended from time to time;
- ii) vegetation compliance criteria (as specified in Schedule 1); and
- iii) any other standard requested by Powercor Australia,

(clauses 3.1(a) and 16.1(i), Schedule 1).

The 'Lump Sum Services' include (Schedule 1):

- i) vegetation management services;
- ii) data and records keeping;
- iii) customer and stakeholder liaison;
- iv) reporting and meetings; and
- v) communication cables vegetation management services (inserted by the 2012 Deed of Variation).

**C2. Full Compliance Services and 2012 Full Compliance Services**

'Full Compliance Services' and '2012 Full Compliance Services' are intended to provide for transition to compliance with the 2010 Regulations in 2011 and 2012 respectively. The Services were introduced in 2011 by the 2011 Deed of Variation and in 2012 by the 2012 Deed of Variation.

**D. Expenditure incurred since July 2010**

The 2011 and 2012 Deed of Variations specifying the transition plans for 2011 and 2012 respectively that met the requirements of the 2011 Exemptions (clauses 2.1(a) of Schedules 8 and 13 of the Exemptions).

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The 2013 Deed of Variation has not been finalised. The percentage of total spans compliant by the 30 June 2013 and 31 December 2013 are estimates at this stage. The Businesses are required to ensure 100 per cent of the total spans are compliant given the dates specified in the 2011 Exemptions.

The transitional plans reflect a reduced workload in 2011 with significant increases in 2012 and 2013. As a consequence, the expenditure profile is back ended with expenditure increasing significantly in 2012 and 2013.

To date VEMCO has successfully completed the full compliance requirements for 2011.

Table D1 reflects Powercor Australia's program for compliance with clause 2.1.2 of the Exemption (cyclic clearing – aerial bundled cable or insulated cable – all areas).

Key Date	% of total spans compliant
30 June 2011	3% <sup>12</sup>
31 December 2011	13% <sup>13</sup>
30 June 2012	28% <sup>14</sup>
31 December 2012	58% <sup>15</sup>
30 June 2013	70%
31 December 2013	100%

**Table D1: Program of compliance with clause 2.1.2 of the 2011 Exemption**

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<sup>12</sup> 2011 Deed of Variation, 1 March 2011, Schedules 12.

<sup>13</sup> 2011 Deed of Variation, 1 March 2011, Schedules 12.

<sup>14</sup> 2012 Deed of Variation, 1 January 2012, Schedules 15.

<sup>15</sup> 2012 Deed of Variation, 1 January 2012, Schedules 15.

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Table D2 reflects Powercor Australia's program for compliance with clause 2.2.2 of the Exemption (cyclic clearing – powerlines other than aerial bundled cable or insulated cable – LBRA).

Key Date	% of total spans compliant
30 June 2011	3% <sup>16</sup>
31 December 2011	13% <sup>17</sup>
30 June 2012	28% <sup>18</sup>
31 December 2012	58% <sup>19</sup>
30 June 2013	70%
31 December 2013	100%

**Table D2: Program of compliance with clause 2.2.2 of the 2011 Exemption**

Table D3 reflects Powercor Australia's program for compliance with clause 2.3.2 of the Exemption (cyclic clearing – aerial bundled cable or insulated cable – HBRA).

Key Date	% of total spans compliant
30 June 2011	3% <sup>20</sup>
31 December 2011	8% <sup>21</sup>
30 June 2012	23% <sup>22</sup>
31 December 2012	48% <sup>23</sup>
30 June 2013	83%
31 December 2013	100%

**Table D3: Program of compliance with clause 2.3.2 of the 2011 Exemption**

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<sup>16</sup> 2011 Deed of Variation, 1 March 2011, Schedules 12.

<sup>17</sup> 2011 Deed of Variation, 1 March 2011, Schedules 12.

<sup>18</sup> 2012 Deed of Variation, 1 January 2012, Schedules 15.

<sup>19</sup> 2012 Deed of Variation, 1 January 2012, Schedules 15.

<sup>20</sup> 2011 Deed of Variation, 1 March 2011, Schedules 12.

<sup>21</sup> 2011 Deed of Variation, 1 March 2011, Schedules 12.

<sup>22</sup> 2012 Deed of Variation, 1 January 2012, Schedules 15.

<sup>23</sup> 2012 Deed of Variation, 1 January 2012, Schedules 15.

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Table D4 reflects CitiPower's program for compliance with clause 2.1.2 of the Exemption (cyclic clearing – powerlines other than aerial bundled cable or insulated cable – LBRA).

Key Date	% of total spans compliant
30 June 2011	3% <sup>24</sup>
31 December 2011	13% <sup>25</sup>
30 June 2012	28% <sup>26</sup>
31 December 2012	58% <sup>27</sup>
30 June 2013	70%
31 December 2013	100%

**Table D4: Program of compliance with clause 2.1.2 of the 2011 Exemption**

Table D5 reflects CitiPower's program for compliance with clause 2.2.2 of the Exemption (cyclic clearing – powerlines other than aerial bundled cable or insulated cable – LBRA).

Key Date	% of total spans compliant
30 June 2011	3% <sup>28</sup>
31 December 2011	13% <sup>29</sup>
30 June 2012	28% <sup>30</sup>
31 December 2012	58% <sup>31</sup>
30 June 2013	70%
31 December 2013	100%

**Table D5: Program of compliance with clause 2.2.2 of the 2011 Exemption**

## **D1. Tracking costs**

The Businesses internally allocate all costs in relation to vegetation clearance under one function code. The Businesses do not allocate costs internally against each regulatory obligation specified under the 2010 Regulations. As a consequence, the Businesses do not track costs in relation to each specific step change proposed in the Revised Regulatory Proposal.

24 2011 Deed of Variation, 1 March 2011, Schedules 11.

25 2011 Deed of Variation, 1 March 2011, Schedules 11.

26 2012 Deed of Variation, 1 January 2012, Schedules 14.

27 2012 Deed of Variation, 1 January 2012, Schedules 14.

28 2011 Deed of Variation, 1 March 2011, Schedules 11.

29 2011 Deed of Variation, 1 March 2011, Schedules 11.

30 2012 Deed of Variation, 1 January 2012, Schedules 14.

31 2012 Deed of Variation, 1 January 2012, Schedules 14.

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**D2. Contract costs of services to be provided**

VEMCO is entitled to charge the Businesses the rates set out in Schedule 3, Schedule 8 and Schedule 13 (clauses 7.2 and 16(n) of the original contract, clause 2.8 of Schedule 8 introduced by 2011 Deed of Variation, clause 2.8 of Schedule 13 introduced by 2012 Deed of Variation).

The amounts payable have changed over time, both due to changes in the scope of services and in accordance with the consumer price index adjustment provided for in the contract.

The history of the amounts payable for the Lump Sum Services and Full Compliance Services in Powercor Australia's distribution area (excluding GST, clause 7.2(c)) and subject to CPI adjustments (Schedule 3, as amended by clause 2.1(g) of the 2009 Deed of Variation)) is as follows:

Year	Option periods			
	2011	2012	2013	2014
Lump sum services (original contract, 2008)	N/A	N/A	N/A	N/A
Lump sum services (2009 Deed of Variation)	N/A	N/A	N/A	N/A
Lump sum services (Modification 1, CPI adjustment)	N/A	N/A	N/A	N/A
Lump sum services (Modification 3 with CPI adjustment)	\$17,497,172	N/A	N/A	N/A
Lump sum services (2012 Deed of Variation)	N/A	\$17,985,293	\$16,944,334	\$16,083,311
Full Compliance Services (2011 Deed of Variation)	\$8,855,000	-	-	-
Full Compliance Services (2012 Deed of Variation)	-	\$22,219,467	-	-

**Table D6: VEMCO contract payments – Powercor Australia (\$ nominal)**

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The history of the amounts payable for the Lump Sum Services and Full Compliance Services in CitiPower's distribution area (excluding GST, (clause 7.2(c)) and subject to CPI adjustments (Schedule 3, as amended by clause 2.1(g) of the 2009 Deed of Variation)) is as follows:

Year	Option periods			
	2011	2012	2013	2014
Lump sum services (original contract, 2008)	N/A	N/A	N/A	N/A
Lump sum services (2009 Deed of Variation)	N/A	N/A	N/A	N/A
Lump sum services (Modification 1, CPI adjustment)	N/A	N/A	N/A	N/A
Lump sum services (-Modification 3 CPI adjustment)	\$1,022,321	N/A	N/A	N/A
Lump sum services (2012 Deed of Variation)	N/A	\$1,002,039	\$952,119	\$914,968
Full Compliance Services (2011 Deed of Variation)	\$1,307,000	-	-	-
Full Compliance Services (2012 Deed of Variation)	-	\$4,178,938	-	-

Table D7: VEMCO contract payments – CitiPower (\$ nominal)

### D3. 2013 Board approved provision of vegetation management services

On 17 April 2012, the Board of CitiPower and Powercor Australia approved a contract variation for the completion of full compliance services required by the end of the 2013 calendar year. Attachment 16 includes the 2013 Board Paper titled, "*Provision of vegetation management services for CitiPower and Powercor – Full Compliance Services for 2013*" (**Board Paper**) and the relevant contract expenditure assessments.

The Board approved for Powercor Australia and CitiPower an amount of \$30.53M and \$5.67M respectively for the provision of full regulatory compliance services for 2013. The expenditure is required in order to achieve the timelines as specified by the 2011 Exemption.

The 2013 lump sum payments have been derived adopting the same logic for the purposes of establishing the original contract lump sum payments. The Businesses are currently negotiating with VEMCO a 2013 Deed of Variation. The finalisation of the 2013 Deed of Variation is likely to be early August.

Additional costs for 2014 and 2015 are required in order to maintain ongoing compliance with the 2010 Regulations. The 2010 Regulations require significantly greater clearances compared to the 2005 Regulations. Refer to Attachment 3, a letter from DLA Phillips Fox

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to CitiPower and Powercor Australia outlining the changes from the 2005 to 2010 Regulations.

In August 2012 the Board is expected to meet to discuss the option of extending the contract to 2014. Further, VEMCO are undertaking a review of operations for 2014 and 2015 in order to achieve ongoing compliance with the 2010 Regulations.

Table D8 outlines the Board approved expenditure for Powercor Australia for 2013 and the estimated expenditure required for 2014 in order to maintain ongoing compliance with the 2010 Regulations.<sup>32</sup>

Date	Description	Value (\$ nominal)
31 <sup>st</sup> December 2013	Additional costs for the 2013 transitional plan to shift compliance to the 2010 Regulations.	\$30,532,000
2013 to 2014 anticipated	Additional costs in 2014 for the ongoing maintenance of compliance to the 2010 regulations.	\$15,000,000

**Table D8: Board approved expenditure – Powercor Australia (\$ nominal)**

Table D9 outlines the Board approved expenditure for CitiPower for 2013 and the estimated expenditure required for 2014 in order to maintain ongoing compliance with the 2010 Regulations.<sup>33</sup>

Date	Description	Value (\$ nominal)
31 <sup>st</sup> December 2013	Additional costs for the 2013 transitional plan to shift compliance to the 2010 Regulations.	\$5,668,000
2013 to 2014 anticipated	Additional costs in 2014 for the ongoing maintenance of compliance to the 2010 regulations.	\$4,100,000

**Table D9: Board approved expenditure – CitiPower (\$ nominal)**

## **E. Revised step change**

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 the 2011 Exemption. As a consequence, the Businesses proposed expenditure for the purposes of the Revised Regulatory Proposal is no longer relevant.

<sup>32</sup> CitiPower PTY Powercor Australia LTD Board of Directors, Provision of Vegetation Management Services for CitiPower and Powercor – Full Compliance Services for 2013, 17 April 2012.

<sup>33</sup> CitiPower PTY Powercor Australia LTD Board of Directors, Provision of Vegetation Management Services for CitiPower and Powercor – Full Compliance Services for 2013, 17 April 2012.



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The Businesses proposed vegetation management expenditure has been determined as follows:

- the values for 2011 have been determined by adding the 2011 lump sum services fee and 2011 full compliance services fee as specified by the 2011 Deed of Variation;
- the values for 2012 have been determined by adding the 2012 lump sum services fee and 2012 full compliance services fee as specified by the 2012 Deed of Variation;
- the values for 2013 have been determined by adding the 2013 lump sum services fee as specified by the 2012 Deed of Variation and the 2013 additional costs in order to achieve full compliance by 2013 with the 2010 Regulations as specified by the Board Paper;
- the values for 2014 have been determined by adding the 2014 lump sum services fee as specified by the 2012 Deed of Variation and the 2014 additional costs in order to maintain ongoing compliance with the 2010 Regulations as specified by the Board Paper; and
- the values for 2015 have been determined by adding the 2014 lump sum services fee as specified by the 2012 Deed of Variation and the 2014 additional costs in order to maintain ongoing compliance with the 2010 Regulations as specified by the Board Paper.

The revised vegetation management expenditure has been subtracted from the AER Final Decision allowance<sup>34</sup> for vegetation management and converted to real \$2010. Further, the revised vegetation management expenditure step change has been de-escalated in order to present the step change without any real cost escalation.

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34 To calculate the vegetation clearance allowance in the final decision the Businesses have:

- Taken the VEMCO contract cost in 2009
- Escalated the 2009 VEMCO contract cost to 2010 consistent with how total 2009 revealed opex was escalated to 2010 in the final decision.
- Escalated this cost to 2011-15 (still in 2010 dollars) by applying impact of real price movements and impact of growth consistent with how the total revealed opex was escalated in the final decision.
- Taken the final decision vegetation clearance step change.
- Applied impact of real price movements to the step change consistent with how the final decision applied impact of real price movements to all step changes.
- Added together the escalated 2009 actual VEMCO contract cost and escalated final decision vegetation clearance step change.
- Deducted this from the forecast actual VEMCO cost to get the incremental step change.

The incremental step change is an escalated step change. The step change that is inserted into the AER's opex model is pre impact of real price movements. Therefore the final incremental step change is de-escalated by impact of real price movements..

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Powercor Australia's actual/forecast contract cost for vegetation management services in nominal terms is set out in Table E1.

	2011	2012	2013	2014	2015
Actual/forecast contract costs (\$ nominal)	26,352	40,205	47,476	31,083	31,083
Real 2010 to nominal inflator (%)	102.57	105.22	107.93	110.70	113.55
Actual/forecast contract costs (\$ 2010)	25,691	38,212	43,990	28,078	27,373

**Table E1: Actual/forecast contract costs – Powercor Australia**

CitiPower's actual/forecast contract cost for vegetation management services in nominal terms is set out in Table E2.

	2011	2012	2013	2014	2015
Actual/forecast contract costs (\$ nominal)	2,329	5,181	6,620	5,015	5,015
Real 2010 to nominal inflator (%)	102.57	105.22	107.93	110.70	113.55
Actual/forecast contract costs (\$ 2010)	2,271	4,924	6,134	4,530	4,416

**Table E2: Actual/forecast contract costs – CitiPower**

Powercor Australia's proposed vegetation management step change in real 2010 dollar terms is set out in Table E3.

	\$000 (real 2010)				
	2011	2012	2013	2014	2015
Actual/forecast contract costs	25,691	38,212	43,990	28,078	27,373
Total final decision allowance	33,308	33,158	27,601	25,561	26,331
<b>Incremental step change</b>	<b>(7,618)</b>	<b>5,054</b>	<b>16,389</b>	<b>2,517</b>	<b>1,042</b>
Impact of real price movements	(68)	120	696	167	84
<b>Un-escalated incr. step change</b>	<b>(7,550)</b>	<b>4,934</b>	<b>15,693</b>	<b>2,350</b>	<b>958</b>
Final decision step change	16,593	15,811	9,731	7,039	7,251
<b>Total un-escalated step change</b>	<b>9,043</b>	<b>20,745</b>	<b>25,424</b>	<b>9,389</b>	<b>8,210</b>

**Table E3: Incremental appeal allowance – Powercor Australia**

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CitiPower's proposed vegetation management step change in real 2010 dollar terms is out in Table E4.

	\$000 (real 2010)				
	2011	2012	2013	2014	2015
Actual/forecast contract costs	2,271	4,924	6,134	4,530	4,416
Total final decision allowance	3,662	2,646	2,640	2,672	2,902
<b>Incremental step change</b>	<b>(1,391)</b>	<b>2,278</b>	<b>3,494</b>	<b>1,858</b>	<b>1,515</b>
Impact of real price movements	(12)	53	144	118	118
<b>Un-escalated incr. step change</b>	<b>(1,379)</b>	<b>2,226</b>	<b>3,351</b>	<b>1,740</b>	<b>1,397</b>
Final decision step change	2,684	1,630	1,571	1,536	1,704
<b>Total un-escalated step change</b>	<b>1,304</b>	<b>3,856</b>	<b>4,922</b>	<b>3,276</b>	<b>3,101</b>

Table E4: Incremental appeal allowance – CitiPower

**F. Responses to AER questions**

Below are the Businesses responses to each of the AER questions.

*1. In support of CitiPower's and Powercor's proposed unit rates the AER require the VEMCO contract (including all schedules and associated models), as amended to incorporate the additional requirements of the Electricity Safety (Electric Line Clearance) Regulations 2010 the previous version of the contract. Further, the information described below for each of the following step changes:*

- reduced clearances for service cables*
- removal of HBRA clearance exemptions*
- changes to 100m span clearances.*

Please find attached the following relevant documents:

- the original VEMCO contract effective from the 12 December 2008;
- the 2009 Deed of Variation effective from the 1 November 2009;
- the 2011 Deed of Variation effective from the 1 March 2011;
- the 2012 Deed of Variation effective from the 1 January 2012;
- Modification No:1 letter dated the 15 January 2008;
- Modification No: 2 letter dated the 22 September 2010;

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- Modification No:3 letter dated the 10 January 2011;
- Modification No:4 letter dated the 21 October 2011; and
- Modification No: 5 letter dated the 8 March 2012.

*2. For each of the above step changes, to disaggregate CitiPower's and Powercor's proposed unit rates:*

The VEMCO contract and Deeds of Variation do not set out separate unit costs for each of the individual step changes. The existing contractual arrangements, provide a 'Lump Sum Services fee', '2011 Full Compliance Services fee' and '2012 Full Compliance Services fee'. The contract provides that the Businesses may vary the scope and extent of the 'Services' to be provided, and that in such circumstances, the parties must try to agree on the price and the time for a variation wherever prior to the execution of the variation (clause 3.3).

In practice, a crew does not conduct each activity (step change) exclusively. For example a crew may clear a main line for the purposes of complying with clause 10 of the 2010 Regulations and in addition for the purposes of complying with Table 2 in the 2010 Regulations. Consequently, it is not possible to disaggregate the unit rates.

*a. state the different crew types required for each step change*

There are many different crew formats and configurations that operate across the Businesses (ie there is no "standard or typical" format). Further, there is not one specific crew type that deals with one specific step change. A crew can potentially conduct a number of activities and, as a consequence, achieve compliance with a number of the provisions as specified by the 2010 Regulations. The range of crew types used by VEMCO includes:

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<b>Manual crews</b>	<b>EWP's</b>	<b>Tipper chippers</b>	<b>Men (skill)</b>
EWP crew	1	0	2 (tree clearers)
EWP crew	1	1	2 (tree clearers)
EWP crew	1	1	3 (tree clearers)
EWP crew	1	1	2 (tree clearers) 2 (ground labour)
EWP crew	2	1	4 (tree clearers) 2 (ground labour)
EWP crew	3	1	6 (tree clearers) 2 (ground labour)
EWP crew	3	2	6 (tree clearers) 4 (ground labour)
EWP crew	4	2	8 (tree clearers) 4 (ground labour)
Ground crew		1	2 (ground labour)
Ground crew		1	3 (ground labour)
Ground crew		1	4 (ground labour)
Live line crew	1		2 (live linesman)
Live line crew	1		3 (live linesman)
Live line crew	1	1	2 (live linesman) 2 (ground labour)
Live line crew	1	1	3 (live linesman) 2 (ground labour)
Tree climbing crew		1	2 (tree climbers)
Tree climbing crew		1	3 (tree climbers)
Herbicide crew		2	2 (herbicide / labour)
Herbicide crew		3	3 (herbicide / labour)
Herbicide crew		4	4 (herbicide / labour)

**Table F1: VEMCO manual crew size**

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<b>Mechanical crews</b>	<b>Number</b>	<b>Support vehicle</b>	<b>Men (skill)</b>
Positrac	1	1	2 (operators)
Positrac	1	1	3 (operators)
Slasher	1	1	2 (operators)
Slasher	1	1	3 (operators)
Bobcat & tipper	1	0	2 (operators)
Mulcher small	1	1	2 (operators)
Mulcher small	1	1	3 (operators)
Mulcher medium	1	1	2 (operators)
Mulcher medium	1	1	3 (operators)
Mulcher large	1	1	2 (operators)
Mulcher large	1	1	3 (operators)
Excavator / groomer	1	1	2 (operators)
Excavator / groomer	1	1	3 (operators)
Excavator	1	1	2 (operators)
Excavator	1	1	3 (operators)
Hedge trimmer	1	1	2 (operators)
Hedge trimmer	1	1	3 (operators)
Skytrim	1	2	2 (operators)
Skytrim	1	2	3 (operators)
Quick trim	1	1	2 (operators)
Quick trim	1	1	3 (operators)

**Table F2: VEMCO mechanical crew size**

<b>Other crews</b>	<b>Number</b>	<b>Support vehicle</b>	<b>Men (skill)</b>
Traffic management	1	1	2 (Labour)
Traffic management	1	1	3 (Labour )
Traffic management	1	1	4 (Labour )

**Table F3: VEMCO other crew size**

*b. state the unit rate for each different crew type*

The diverse geographic area of the Businesses' networks means that resources are deployed according to site specific requirements. VEMCO has advised the following unit rates for each crew.

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Manual crews	EWP's	Tipper chippers	Men (skill)	Average cost not including LAFHA, float, OH (\$2010)
EWP crew	1	0	2 (tree clearers)	
EWP crew	1	1	2 (tree clearers)	
EWP crew	1	1	3 (tree clearers)	
EWP crew	1	1	2 (tree clearers)	
			2 (ground labour)	
EWP crew	2	1	4 (tree clearers)	
			2 (ground labour)	
EWP crew	3	1	6 (tree clearers)	
			2 (ground labour)	
EWP crew	3	2	6 (tree clearers)	
			4 (ground labour)	
EWP crew	4	2	8 (tree clearers)	
			4 (ground labour)	
Ground crew	-	1	2 (ground labour)	
Ground crew	-	1	3 (ground labour)	
Ground crew	-	1	4 (ground labour)	
Live Line crew	1		2 (live linesman)	
Live Line crew	1		3 (live linesman)	
Live Line crew	1	1	2 (live linesman)	
			2 (ground labour)	
Live Line crew	1	1	3 (live linesman)	
			2 (ground labour)	
Tree climbing crew	-	1	2 (tree climbers)	

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Manual crews	EWP's	Tipper chippers	Men (skill)	Average cost not including LAFHA, float, OH (\$2010)
Tree climbing crew		1	3 (tree climbers)	
Herbicide crew		1	2 (herbicide / labour)	
Herbicide crew		1	3 (herbicide / labour)	
Herbicide crew		2	4 (herbicide / labour)	

**Table F4: VEMCO manual unit rates**



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<b>Mechanical crews</b>	<b>Number</b>	<b>Support vehicle</b>	<b>Men (skill)</b>	<b>Average cost not including LAFHA, float, OH (\$2010)</b>
Positrac	1	1	2 (operators)	
Positrac	1	1	3 (operators)	
Slasher	1	1	2 (operators)	
Slasher	1	1	3 (operators)	
Bobcat & tipper	1	0	2 (operators)	
Mulcher small	1	1	2 (operators)	
Mulcher small	1	1	3 (operators)	
Mulcher medium	1	1	2 (operators)	
Mulcher medium	1	1	3 (operators)	
Mulcher large	1	1	2 (operators)	
Mulcher large	1	1	3 (operators)	
Excavator / groomer	1	1	2 (operators)	
Excavator / groomer	1	1	3 (operators)	
Excavator	1	1	2 (operators)	
Excavator	1	1	3 (operators)	

**Table F5: VEMCO mechanical crew unit rates**

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Mechanical crews	Number	Support vehicle	Men (skill)	Average cost not including LAFHA, float, OH (\$2010)
Hedge trimmer	1	1	2 (operators)	
Hedge trimmer	1	1	3 (operators)	
Skytrim	1	2	2 (operators)	
Skytrim	1	2	3 (operators)	
Quick trim	1	1	2 (operators)	
Quick trim	1	1	3 (operators)	

**Table F6: VEMCO mechanical crew unit rates**

Other crews	Number	Support vehicle	Men (skill)	Average cost not including LAFHA, float, OH (\$2010)
Traffic management		1	2 (labour)	
Traffic management		1	3 (labour)	
Traffic management		1	4 (labour)	

**Table F7: VEMCO crew unit rates**

- c. provide a breakdown of the unit rate for each different crew type (including labour rates for each worker, resource/equipment rates (e.g. vehicles, elevated work platforms etc.)*

As VEMCO uses a large number of subcontractors as well as internal resources, the hourly rate for each item of plant and labour does vary between suppliers. VEMCO also incurs other additional costs associated with mobilisation, demobilisation, training, travel, float, overtime and Living Away From Home Allowances.

Tables F8, F9 and F10 indicate the median hourly rates across a range of items.

These rates are direct costs only and exclude any VEMCO costs associated with company overheads, payroll, human resources, scheduling and programming, inspection, pre-summer program, maintenance programs, IT and data management, audit programs, office expenses, accommodation, supervision, management, insurance etc.

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Items - Plant	Median \$/hr (\$2010)
EWP	
Tipper chipper	
Support vehicle	
Herbicide vehicle (excludes chemical)	
Positrac	
Slasher	
Bobcat & tipper	
Mulcher small	
Mulcher medium	
Mulcher large	
Excavator groomer	
Excavator	
Hedge trimmer	
Skytrim	
Quick trim	

Table F8 VEMCO non crew unit rates

Items - Labour	Median \$/hr (\$2010)
Ground labour	
Herbicide application	
Tree clearer	
Tree climber	
Live linesman	
Traffic management	

Table F9 VEMCO non crew unit rates

Items	Median \$/hr (\$2010)
Living away from home allowance	
Float / km	

Table F10 VEMCO non crew unit rates

*d. state the amount of time assumed for each crew per span*

The time allocated per span varies significantly due to the volume of work required, the work location and the type of crew allocated. It is also dependant on the strategy intended

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for the span (ie.frequency of cut and the longevity of clearances to be achieved). These variables are noted in Attachment 17, 'Matthew Joyce's Witness Statement' (paragraph 35).

The variance in time taken per span, for each different type of crew can vary between 15 minutes and a few days, depending on the specific variables at each span. In preparing his Witness Statement, Matthew Joyce used an average time, over the range and mix of resources, across the entire contract based on historical data.

A general summary follows. However it should be noted that this is a weighted average figure that was used at the time. It is also important to note that in some spans, multiple crews are used to complete the works, so it is a combined total of each element that must be considered.

For example, the initial cut for a single span may require:

- An EWP crew (2.65hrs);
- A Climbing Crew (4.25hrs);
- A Live Line Crew (2.81hrs);
- A Ground Crew (3.40hrs);
- A follow up herbicide crew (approximately 6 months later) (1.68hrs); and
- Some mechanical works.

The total crew hours taken to complete this single span would be the sum of each individual component.

The Table F11 shows the estimated average hours per span against the actual hours taken per span since the Transition Program commenced.

<b>Revised Regulatory Proposal</b>	<b>2011 – Actual</b>	<b>2012 – Actual YTD</b>
1.59 hours per span (5.03 spans per crew per day)	2.28 hours per span (3.51 spans per crew per day)	1.88 hours per span (4.25 spans per crew per day)

**Table F11: Spans cleared per hour**

Table F11 shows that VEMCO are yet to achieve the estimated average hours per span that was assumed for the Revised Regulatory Proposal. This is due to heavier workloads per span than was anticipated at the time by VEMCO.

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*e. state how many additional inspectors are required for each step change*

The average number of inspectors per annum is as follows:

Resource	2010 Actual Number of inspectors (FTE)	2011 Actual Number of inspectors (FTE)	2012 Actual Number of inspectors (FTE)
Inspectors	18	26	33

Table F12: Inspector numbers

*f. state the inspectors' hourly contract rates*

These rates are the base cost rates and do not include any overheads (company overheads, income protection, payroll tax, workers compensation etc).

Resource	Rate range (\$2010)
Inspectors	

Table F13: Inspectors unit rates (\$ per hour)

The rates do not include a support vehicle per resource. An average base rate without any overheads is in the range between \$█ and \$█/hr (\$2010) depending on vehicle type, age, and depreciated value, running costs, insurance, servicing, repairs and maintenance costs.

*g. state the amount of time that has been allocated for those inspections per span*

The time allocated for inspection is subject to the same types of variables as listed in Matthew Joyce's Witness Statement (paragraph 35).

The number of spans inspected per day ranges from 60 to 145, depending on specific areas being inspected. In addition to the numerous environmental factors, the inspection process also includes customer and stakeholder negotiation. These negotiations can be time consuming, resulting in a lower number of spans being inspected per day. Generally, the number of spans inspected is lower in heavily vegetated areas as each individual tree needs to be assessed, marked with spray paint and recorded and in urban areas, where each tree to be cut requires a negotiation be undertaken with the landowner.

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Table F14 shows the estimated average spans inspected per day included in the Businesses Revised Regulatory Proposals. It also shows the actual number of inspections being achieved is lower due to the increased work load taking longer than anticipated.

	Revised Regulatory Proposal Estimated Average spans per day	2011 Actual Average spans (per day)	2012 Actual Average spans (per day)
<b>Total Contract Average</b>	115	38	55

Table F14: Spans cleared per day

Main reasons for the lower inspection rates being achieved are:

- Heavier workloads per span than assumed – therefore more on site tree marking and assessment required;
- Due to significantly more cutting per span being undertaken, it is taking much longer to negotiate with landowners and other authorities to explain change in practices and additional tree clearing and removals required;
- Within LBRA areas in particular, it is taking significantly more consultation with councils to communicate change in clearance standards in an attempt to obtain consent; and
- With more spans being identified for action, more letters are being left with landowners that are not home. As a result, VEMCO constantly has to divert from inspection to return to meet landowners on site to discuss the required works (second site visits).

*h. state the resources required for traffic management, notification and consultation, data capture, subcontract resource management, auditing and quality control*

Traffic management is a subcontracted resource and is location dependent. The crew make up, and hence cost will vary widely dependant on individual locations and regulatory requirements.

The median labour rate (\$2010) for traffic management is \$█ per hour.

Notification and consultation, data capture, subcontractor resource management, auditing and quality control are conducted by the inspectors as outlined by the response to question (g).

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- i. disaggregate the unit rate per crew into the component listed in the statement of Matthew Joyce of 30 August 2010.*

Table F15 provides a break down of the individual cost elements of each item nominated by Matthew Joyce in his Witness Statement. The cost elements have been noted within Item 35.

The percentage allocations are average percentages only and would vary at any particular worksite or local area as well as varying during different times of the year due to seasonal factors.

<b>Item No.</b>	<b>Description</b>	<b>Percentage of total unit rate (%)</b>
35 (b)	Inspection	3.5
35 (e)	Travel to & from site	4.0
35 (f)	Site access	2.8
35 (g)	Traffic control	4.5
35 (h)	Clean up costs	18.0
35 (i)	Weather impacts	6.0
35 (j)	Notification & consultation	2.0
35 (k)	Customer requirements	2.0
35 (l)	Crew composition	42.0
35 (m)	EBA's	3.2
35 (n)	Machinery capital & running	5.5
35 (p)	Management costs	4.5
35 (r)	Auditing	2.0

**Table F15: VEMCO costs by component (%)**

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3. *Additionally:*

- a. *provide a detailed description of how work practices have changed since the introduction of the Electricity Safety (Electric Line Clearance) Regulations 2010 for each of the step changes*
- b. *identify any differences between the current practices described in (1) and those outlined in the Matthew Joyce statement*

Changes to work practices arising from the 2010 Regulations include:

- Increased negotiation and consultation is required with customers (including local government) due to the increased clearances required from the 2010 Regulations;
- Changes to some crew configurations – due to the amount of services to be cleared, VEMCO now has dedicated services crews; and
- Introduction of mechanical equipment – As significantly more vegetation is being cleared, VEMCO have imported purpose built, mechanical clearing equipment. The use of this equipment, has resulted in the development of new work practices associated with occupational health and safety, cutting techniques and standards, cleanup standards and interaction with major stakeholders such as the Department of Sustainability and Environment, Parks Victoria.

4. *Identify the actual costs incurred in 2011 associated with the step changes including:*

- a. *the total cost for each step change*
- b. *the volume of work for each step change*
- c. *the different crew types used for each step change*
- d. *the unit rate for each different crew type?*
- e. *a breakdown of the unit rate for each different crew type (including labour rates for each worker, resource/equipment rates (eg. vehicles, elevated work platforms etc)*
- f. *the average time taken for each crew type per span*
- g. *the additional inspectors employed for each step change*
- h. *those inspectors' hourly contract rates*
- i. *the time taken to inspect each span*



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- j. other resources used for notification and consultation, data capture, subcontractor resource management, auditing and quality control.*

The Businesses allocate all costs in relation to vegetation clearance under a single function code. The Businesses do not allocate costs internally against each regulatory obligation specified under the 2010 Regulations. As a consequence, the Businesses do not track costs in relation to each specific step change proposed in the Revised Regulatory Proposal.

Actual costs for 2011, at a total level, are shown in Section E, Tables E3 and E4.

- 5. Reconcile the actual unit costs in 2011 for each step change with the contract with VEMCO as amended to incorporate the additional requirements of the Electricity Safety (Electric Line Clearance) Regulations 2010.*

The vegetation management contract does not set out separate unit costs for each of the step changes. The existing contractual arrangements, provide a 'Lump Sum Services fee', '2011 Full Compliance Services fee' and '2012 Full Compliance Services fee'. The contract provides that the Businesses may vary the scope and extent of the 'Services' to be provided, and that in such circumstances, the parties must try to agree on the price and the time for a variation wherever prior to the execution of the variation (clause 3.3).

The actual costs for 2011 are those specified under the VEMCO contract. Please see Section E, Tables E3 and E4.

**G. Attachments**

The following documents are annexed to this submission, numbered as set out below:

<b>Attachment</b>	<b>Title</b>
1	Application by United Energy Distribution Pty Limited {2012} ACompT1
2	Letter from AER to CitiPower and Powercor Australia, Timetable for implementing the Tribunal's Orders of 5 April 2012, 25 May 2012.
3	Letter from DLA Phillips Fox to CitiPower and Powercor Australia, 21 June 2010.
4	Letter from VEMCO to CitiPower and Powercor Australia, 13 July 2010.
5	Energy Safe Victoria, <i>Exemption from the Requirement to Maintain a Clearance Space in Accordance with Tables 1, 2 and 3 of the Regulations of Practice for Electric Line Clearance in the Electricity Safety (Electric Line Clearance) Regulations 2010 granted to Powercor Australia in respect to certain requirements for the maintenance of a clearance space for certain electric lines – January 2011, 18 February 2011.</i>
6	Energy Safe Victoria, <i>Exemption from the Requirement to Maintain a Clearance Space in Accordance with Tables 1, 2 and 3 of the Regulations of Practice for Electric Line Clearance in the Electricity Safety (Electric Line Clearance) Regulations 2010 granted to CitiPower in respect to certain requirements for the maintenance of a clearance space for certain electric lines – January 2011, 18 February 2011.</i>
7	Powercor Australia Ltd and VEMCO contract, Supply of Vegetation Management Services, 12 December 2008.
8	2009, Deed of Variation, Supply of Vegetation Management Services, Powercor Australia and VEMCO,

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	16 December 2009.
9	2011, Deed of Variation, Supply of Vegetation Management Services, Powercor Australia and VEMCO, 1 March 2011.
10	2012 Deed of Variation, Supply of Vegetation Management Services, Powercor Australia and VEMCO, 9th January 2012.
11	Modification No: 1 letter dated the 15 January 2008.
12	Modification No: 2 letter dated the 22 September 2010.
13	Modification No: 3 letter dated the 10 January 2011.
14	Modification No: 4 letter dated the 21 October 2011.
15	Modification No: 5 letter dated the 8 March 2012.
16	CitiPower Pty Powercor Australia Ltd, Board of Directors, 'Provision of Vegetation Management Services for CitiPower and Powercor – "Full Compliance Services for 2013", 17 April 2012.
17	Matthew Joyce, Witness Statement.