**United Energy Regulatory Reset 2026-2031: Submission to AER Issues Paper**

I write as a United Energy (UE) customer, who also works in the area of energy policy and regulation. Thank you for the opportunity to provide feedback on UE's proposal and the Issues Paper, and I apologise for the lateness of the submission.

*Summary*

My views can be summarised as set out in the table below responding to some of the specific questions in the Issues Paper. I expand on these responses further below. While they are aimed at UE's proposal, most of the points are generic and so in principle applicable to all the Victorian DNSPs.

| Question | Summary response |
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| Q7: How well do you feel CitiPower, Powercor and United Energy have responded to consumer and stakeholder feedback on their proposals, including but not limited to feedback on their draft proposals? | It is difficult to evaluate, but I cannot detect any evidence relating to how written submissions to their draft proposal have been taken into account. |
| Q17: Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed opex? | The AER could apply a higher productivity assumption (1%). Guaranteed Service Level (GSL) payment costs should be reviewed to account for the potential increase in reliability that the overall proposal may drive. For the same reason, STPIS targets should be reviewed to ensure they are appropriately challenging. |
| Q18: Do you have any feedback on the new nominated costs pass through events? | The electrification event is not an appropriate pass through event. Demand uncertainty (whether policy-induced or not) can be managed in better ways, including potentially through the form of control |
| Q19: Do you have any concerns with the application of the CESS for CitiPower, Powercor and United Energy in the 2026-31 regulatory period? | The CESS should apply to residential connection costs. |
| Q33: Do you have any feedback on the design of United Energy's proposed CSIS? | The CSIS targets should be challenging to achieve. I am not well placed to determine exactly what the targets should be, but the targets for the current period appear relatively easy to meet. |
| Q39: Do you have any feedback on the form of control set out in the Framework and Approach paper and the proposals and whether, if you've suggested a change to service classifications in response to the question above, the control mechanisms set out in that paper remain appropriate? | The form of control *may* be the most appropriate place for an uncertainty mechanism, potentially through a switch to a price control or some alternative option such as a revenue cap with revenue drivers. The AER is best placed to carry out detailed analysis on the merits of such an approach and whether any adjustment mechanism is required. |

***Accounting for uncertainty in the regulatory framework***

UE (and the other Victorian DNSPs) have made the case that the energy transition is a cause of greater uncertainty in future demand patterns than was previously the case, and accordingly, this must be recognised in the regulatory settlement. While I have some sympathy with the argument that uncertainty has increased, I do not support their proposed solution of a nominated pass through event.

Managing uncertain future demand is a core activity for DNSPs, and UE's proposal includes funding for various demand management tools. Accordingly, even if demand turns out to be higher than forecast (regardless of whether this is due to a policy announcement), DNSPs have ways to substantially mitigate the cost impact.

I also do not consider that the event can be clearly identified as leading to a reasonably specific incremental cost. This is in part due to the proposal to use a policy announcement as a trigger. Announced policies often undergo significant refinement prior to legislation and implementation, and may not even be especially well-defined at the point of announcements. Policy implementation can be delayed and sometimes never even occurs.

Even if the pass through event was refined to be triggered by the passing of the enabling legislation or regulations, it would not be sufficiently clear at that time what if any unavoidable incremental costs would be incurred by the DNSPs from policies aimed at reducing the use of reticulated gas by gas customers. The ambiguity over how and when energy use patterns may change as a result of evolving electrification policies is exemplified by the recent attempt by AusNet to reopen its gas distribution access arrangement, where the AER ultimately disagreed with AusNet as to whether the impact was such that it should be able to increase its tariffs.

Additionally, pass-through events should only be used sparingly, because they are asymmetric and do not allow for the same level of scrutiny of costs as ex ante revenue determinations. The asymmetry is less of an issue for events which can only lead to cost increases – such as extreme weather, for example, but government policy could lead to demand reductions as well as demand increases – for example, the Commonwealth government's election commitment to subsidise home battery installations, or the Victorian Government's Victorian Energy Upgrade scheme.

To the extent that demand uncertainty requires a regulatory response there are better tools available. Some form of revenue driver may be worth considering, as this can be symmetrical, although care should be taken in the design and specification of such a tool, so as to avoid perverse incentives and to reasonably calibrate the scale of the driver (noting that there would not in practice be a linear correlation between the parameter(s) selected as the driver and a DNSP's costs).

It may be that a revenue driver or other uncertainty tools represent a change in the form of control and should have been considered at the Framework and Approach (F&A) stage of the review. OF course, the basic premise that government policy could result in a material change in demand was well known at that time, so UE should have raised it as a concern then to allow the full range of uncertainty management options to be considered. It appears that none of the DNSPs nor the AER considered demand uncertainty to warrant consideration at that time. Unsurprisingly, given no encouragement to engage on the topic, no other stakeholder raised the issue at the time.

For the avoidance of doubt I also do not support the implication by UE that, absent a suitable uncertainty mechanism, they could simply propose more capex than necessary for expected demand in case there was a future government policy change that drove demand higher. I would welcome the AER clarifying that such an approach would not be prudent or efficient and would not be consistent with the long-term interest of UE's customers.

***Affordability is key in the context of cost-of-living pressures***

UE is to be commended for its strong track record of being one of the more efficient of Australia's distribution network service providers (DNSPs). However, this is a *relative* efficiency, and it remains essential that it continues to find efficiencies in its operations and ways to constrain its expenditure whilst continuing to deliver appropriate service levels.

While on the face of it, the proposal is only projecting a very modest increase in charges, this is predicated on expectations of strong demand growth (around 25 per cent). As the Issues Paper notes this demand growth is by no means certain, but since UE will be subject to a revenue cap rather than a price cap, lower demand growth than projected will result in higher prices. Also, at this stage, it's unclear what the allowed rate of return will be, but given recent increases in interest rate from historically low levels, it is more likely to be higher than lower compared to the current allowance. This would push up prices even though no additional services would be delivered. There are also the eleven potential pass through items which if triggered could lead to higher prices.

The AER could incentivise UE to contain costs by increasing its productivity assumption. The standard 0.5 per cent per year (as included in the proposal) is a very modest target, and 1 per cent annually should be eminently achievable. This is especially in the context of:

- A material number of step changes in operating expenditure (opex). As these are new categories of expenditure, higher efficiency gains are likely to be more easily achievable than with existing categories.
- An innovation allowance. This allows DNSPs to try out cost-saving activities that they might not otherwise because the chances of success are uncertain.

For the avoidance of doubt, I recognise that the productivity assumption is just that, and there is no way to arrive at an objective assessment of a reasonable target. For this reason, I see no need for the AER to carry out a standalone review of productivity targets in order to make a modest adjustment to its previous standard assumption.

***Reliability and resilience***

UE's general statement is that it is seeking to maintain reliability. At a high level this seems appropriate. However, the AER's revised Value of Customer Reliability (VCR) figures suggest that households place a materially higher value on reliability than previously (while commercial customers' VCR is lower than before). Given the timing of the proposal, I assume that the old figures have been used, although I struggled to find a definitive statement. If this is so, there is a chance that UE's revised proposal will include additional expenditure as more projects will pass a cost-benefit analysis if the benefits are higher than previously estimated.

Additionally UE may need to include additional resilience projects if the Victorian government introduces new resilience obligations. Resilience investment is likely to improve overall reliability too.

UE has had to propose a step change in vegetation management opex to meet its safety obligations. Greater vegetation management should result in improved reliability.

In other words there are at least three potential drivers of *increased* reliability, albeit two of them may not manifest until the revised proposal. It follows that UE should evaluate the overall expected impact on reliability of its proposed expenditure , whether badged as "reliability"-driven projects or not. If there is reason to expect higher reliability, this should be reflected in rising STPIS targets and lower

estimated guaranteed service level (GSL) payments. AusNet has – commendably - already made an adjustment to these elements in its proposal, and other networks should follow this example.

***Incentives***

Incentives are an important part of the regulatory framework. Cost incentives should be applied as widely as possible, with exclusions only for "use it or lose it" allowances, such as the innovation allowance, or for highly volatile, low controllability costs. Commercial scale connections could meet this latter criterion, but residential connections should be relatively straightforward to forecast at an average unit cost level. If volumes are considered especially unpredictable this would then be better addressed by including a volume driver in the revenue allowance. Accordingly, I don't support the proposal to include *all* connections costs from the CESS, but there may be a case for excluding commercial connections.

The STPIS is discussed above and this and the CSIS should be based on "stretch" targets rather than business-as-usual targets. UE appears to have earned close to the maximum CSIS reward in the current period, and this suggests the targets were not challenging enough. AER analysis on the profitability of networks indicates a consistent significant outperformance, on average, and this indicates that the regulatory settlement may be erring a little on the generous side for networks.

Engagement

I am unable to judge the effectiveness and appropriateness of UE's overall engagement. I made a short written submission to the draft proposal. Of course, an individual submission is not going to have a material impact on the proposal, but I was disappointed not to see any recognition of the *aggregate* impact of submissions to the draft proposal or even any recognition that there had been written submissions. Even a sentence to say that few written submissions were received and that therefore they had little to no impact on the final proposal would have been something. More broadly, I found it difficult to tell *how* the various forms of engagement had impacted the proposal.

Should you require any clarification of my feedback my contact details are on the next page (for ease of redaction for publishing).

Kind regards

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