



16 October 2014

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Dear Chris,

RE: AMI Charges Application 2015

Thank you for providing a copy of the submission by the Victorian Minister for Energy and Resources to your consultation on charges for the AMI rollout.

We write to respond to a number of the matters raised in that submission.

1. Pricing

The Victorian Government compares United Energy's (UE) 2015 prices to Citipower and Powercor and infers that the difference is due to inefficient expenditure. It is important to note that this project began in 2009, with prices first published in 2010. A comparison of pricing for 2010 and 2011 is as follows:

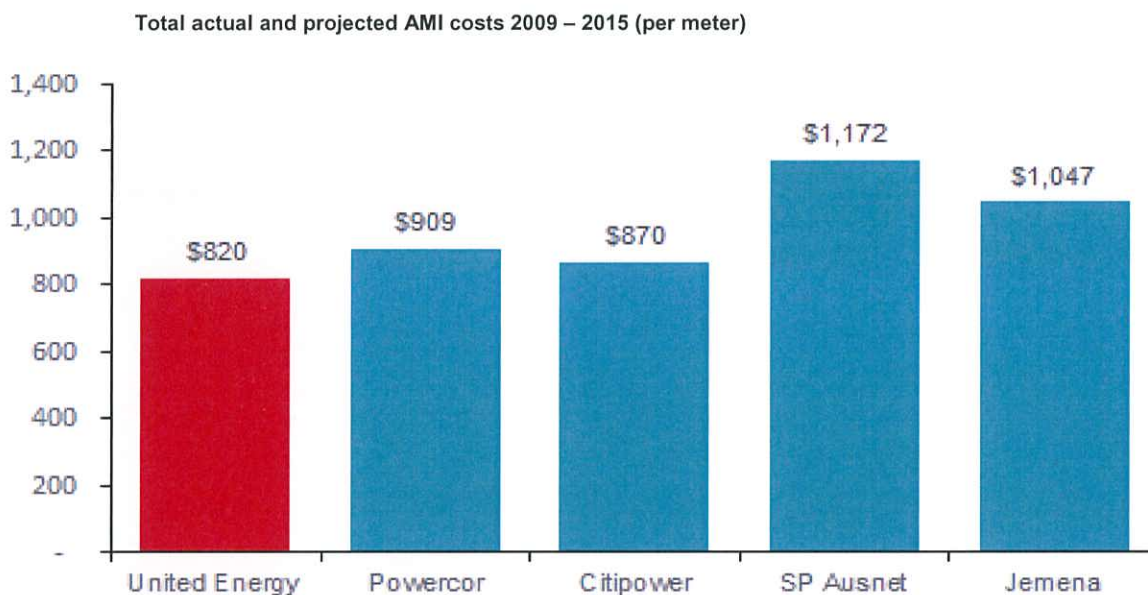
	2010	2011	Comments
CP – single phase	\$104.79	\$108.43	UE is approximately:
PC - single phase	\$96.67	\$105.35	\$25 - \$33 cheaper in 2010
UE - single phase	\$71.80	\$92.12	\$13 - \$14 cheaper in 2011
CP – three phase	\$136.98	\$146.57	UE is approximately:
PC - three phase	\$127.50	\$142.71	\$46 - \$56 cheaper in 2010
UE - three phase	\$81.01	\$103.89	\$39 - \$43 cheaper in 2011
CP – three phase with CT	\$172.99	\$182.33	UE is approximately:
PC - three phase with CT	\$168.94	\$188.29	\$82 - \$86 cheaper in 2010
UE - three phase with CT	\$86.40	\$110.82	\$71 - \$77 cheaper in 2011

This table highlights the different pricing profile earlier in the project, when UE was significantly cheaper than Citipower and Powercor. UE's approach saw prices start low and gradually increase through the life of the project, while Citipower and Powercor's price started comparatively higher and remained relatively steady. This simply reflects a different price path, rather than project efficiency. Therefore, a single year

of price comparison is misleading and does nothing to reflect efficiency over the life of a project that commenced in 2009.

2. Benchmarking

UE agrees with the Victorian Government that benchmarking is an important consideration when assessing its proposal. The figure below provides a summary of total expenditure over the life of the project. It demonstrates that UE is clearly the most efficient provider of AMI installations over the life of the project.



Given the expenditure over the life of the project ultimately reflects the overall cost impact on our customers, this is the most appropriate form of benchmarking. Benchmarking overspend against budget in any single year provides limited value in assessing overall project efficiency.

Another difference between the two programs which limits the value of the benchmark comparison outlined in the Victorian Government submission was the decision by Citipower and Powercor to pursue a two element metering solution and no change to network tariffs/customer configuration at the commencement of the program. In contrast, UE chose a single element meter solution and the transfer of customers onto a time of use tariff. This was initially supported by the Victorian Government and by changes made to the Distribution Code, which were subject to consultation by the AER and ESC.

The Victorian Government then asked for a moratorium on time of use tariffs, which required UE to bypass sites until the Government policy issues were resolved and UE had the capability in the end to end AMI systems for the many metering configurations and tariff types. This meant that the more complex sites needed to be left until last. Expenditure in 2013 is therefore not a reasonable comparison for benchmarking purposes. Again, the most effective benchmark measure is the total program cost (2009-2015) across Victoria.

3. Project office costs

UE does not agree with the Minister's assertion that "*it is unclear...whether it was prudent (efficient) to bring the project back in house*".

UE has provided extensive supporting evidence to the AER contained in two independent expert reports which both conclude that UE made a prudent and efficient decision to bring the project in house.

Throughout the project UE has had to balance the competing objectives to meet its best endeavours obligations and manage cost in the interests of its customers.

The roll-out would not have been completed to the current rate of 98% had action not been taken at the time it was. As demonstrated earlier, despite this necessary action UE has still delivered the lowest cost rollout when compared to all Victorian businesses.

4. Overall project spend

Over the life of the project UE is forecast to spend approximately \$535m, including installation and maintenance costs. This compares to the allowance under the cost recovery arrangements of \$529m and represents a total over run of approximately 1.3%. For a project over \$500m spanning seven years, this result is prudent and efficient against any measure.

UE would be happy to respond to any further enquiries you may have in relation to our proposal.

Yours sincerely,



Andrew Schille
General Manager Regulation