

**NATIONAL ELECTRICITY RULES**

**CLAUSES S6.1.1(5) AND S6.1.2(6)**

**CERTIFICATION OF REASONABLENESS OF KEY ASSUMPTIONS THAT UNDERLIE  
CAPITAL EXPENDITURE AND OPERATING EXPENDITURE FORECASTS**

I certify that on 11 December 2019 the Directors of United Energy Distribution Pty Ltd (ACN 70 064 651 029) passed the following resolution.

It was resolved to:

1. certify, in accordance with clause S6.1.1(5) of the *National Electricity Rules*, the key assumptions that underlie the capital expenditure forecast for United Energy are reasonable; and
2. certify, in accordance with clause S6.1.2(6) of the *National Electricity Rules*, the key assumptions that underlie the operating expenditure forecast for United Energy are reasonable.

The key assumptions that underlie the capital expenditure and operating expenditure forecasts referred to above are attached to this certification.

A handwritten signature in blue ink, appearing to read "Peter Wilkins", written over a horizontal line.

Peter Wilkins

Company Secretary

United Energy Distribution Pty Ltd

7 January 2020

Key Assumptions	Supporting evidence
<b>Assumptions applicable to operating and capital expenditure</b>	
Forecast expenditure incorporates stakeholder engagement feedback	<ul style="list-style-type: none"> <li>Completed Energised 2021-2026 program</li> <li>More than 2,141 touchpoints with customers and stakeholders since 2017</li> <li>Draft Proposal released for feedback in February 2019</li> </ul>
Labour escalation forecast	<ul style="list-style-type: none"> <li>Based on BIS Oxford Victorian Electricity Gas Water and Waste Services wage growth forecasts, escalated for Superannuation Guarantee Levy reaching 12.0% by 2025</li> </ul>
Contract escalation forecast (capital expenditure only)	<ul style="list-style-type: none"> <li>Based on BIS Oxford Victorian construction sector wage growth forecasts, escalated for Superannuation Guarantee Levy reaching 12.0% by 2025</li> </ul>
Materials escalation forecast	<ul style="list-style-type: none"> <li>No real escalation assumed, consistent with AER accepted approach</li> </ul>
<b>Assumptions applicable to capital expenditure forecast only</b>	
<b>Replacement</b>	
Replacement asset management strategies and the scope of works selected for each asset category are appropriate to meet the capital expenditure objectives of the Rules	<ul style="list-style-type: none"> <li>Asset management framework aligns with the requirements of ISO 55001</li> <li>Forecasts for major plant and equipment are primarily based on a risk monetisation approach that identifies the least cost intervention option, consistent with the AER's asset replacement planning guideline</li> <li>Forecasts for routine replacement of high volume equipment, such as poles and wires, are forecast based on historical trends and/or averages that reflect prudent asset management practices. Where new asset management policies are applicable, forecasts have been developed based on these policies</li> <li>Application of the AER replacement expenditure model to compare forecasts</li> <li>Volumes and unit rates are based on audited historical RIN data or observed actual costs for like projects</li> </ul>
<b>Augmentation</b>	
Spatial peak demand growth as forecast	<ul style="list-style-type: none"> <li>Demand forecasts prepared based on our bottom-up analysis and reconciled to the top-down forecasts prepared by the National Institute of Economic and Industry Research</li> </ul>
We forecast expenditure consistent with our compliance obligations under the Victorian Electricity Distribution Code	<ul style="list-style-type: none"> <li>Version 9A of the Victorian Electricity Distribution Code</li> </ul>

Key Assumptions	Supporting evidence
Network capacity planning strategies and the scope of works selected for each network category are appropriate to meet the capital expenditure objectives of the Rules	<ul style="list-style-type: none"> <li>• 2018 Distribution Annual Planning Report</li> <li>• 2018 Transmission Connection Planning Report</li> </ul>
<b>Customer connections</b>	
Customer connection expenditure as forecast	<ul style="list-style-type: none"> <li>• Volume forecasts for residential and commercial connections prepared using the Australian Construction Industry Forum construction activity index</li> <li>• Internal estimates used to forecast large and renewable connections</li> <li>• Customer contributions based on historical percentages determined in accordance with Chapter 5A of the National Electricity Rules and the AER's connections charge guideline</li> </ul>
<b>Assumptions applicable to operating expenditure forecast only</b>	
Base, step, trend approach applied to operating expenditure forecast	<ul style="list-style-type: none"> <li>• Nominated 2019 as efficient revealed cost year</li> </ul>
Rate of change as forecast	<ul style="list-style-type: none"> <li>• Customer forecasts prepared by CIE</li> <li>• Maximum demand forecasts prepared by NIEIR</li> <li>• Circuit length forecasts based on historical trends</li> <li>• Output weights based on an average of two AER econometric models, as per advice from NERA</li> <li>• AER pre-emptive productivity adjustment applied</li> </ul>