



Appendix J – DMIS/DMIA Report

Note: See Attached

Demand Management Incentive Scheme Report - 2013



DMIS Report

This report details outcomes of projects supported by the Demand Management Incentive Scheme.

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1 Introduction

1.1 District Energy Services Scheme (DESS) Project

In August 2011, United Energy (UE) was delighted to formalise a Memorandum of Understanding (MoU) with Manningham City Council to work with the Council in providing support for jointly planned initiatives within the Doncaster Hill Smart Energy Zone¹. Over the time, the MoU has allowed UE to provide its expertise in electricity distribution to assist the Council to explore and facilitate projects which promote sustainable energy development and demand management opportunities within the precinct. UE is supportive of and is actively engaged with the Council in its District Energy Services Scheme (DESS) project, predominantly through in-kind labour support, but also in cash support through the Demand Management Incentive Scheme Allowance (DMIA) in instances when external consulting resources were required for the development of the project.

While the aim of the DESS project is to ultimately establish a working, commercially feasible DESS in the Doncaster Hill Smart Energy Zone to potentially defer network augmentation, the DMIA has been an essential funding source to enable the Council and UE to do the upfront work necessary to prove the concept and announce the preferred provider. Working with two qualified expert service providers to explore and establish the foundations for a suitable commercially viable model within the existing regulatory framework, has been a valuable step in the process. If proven successful, this model could form the benchmark for opportunities to develop similar schemes elsewhere around Australia.

UE has some emerging constraints within the Doncaster electricity distribution network and the convergence of these constraints with the implementation of a DESS project within the Doncaster Hill area could allow the non-network solution to defer planned network augmentations by reducing peak demand. Key to the success of achieving this objective was the development of a commercial model with two expert DESS companies identified through the Expression of Interest (EOI) and Request for Quotation (RFQ) process conducted during 2012. UE and Council shortlisted two providers, namely COFELY Australia and MSEZ Consortium from the process and both organisations have since developed comprehensive proposals that were reviewed by an independent third party AECOM during 2013.

Following the detailed review, on 13th August 2013 Council announced COFELY Australia (a subsidiary of the multinational utility company GDF SUEZ) as the preferred provider for a DESS for the Doncaster Hill Principal Activities Area. The announcement follows two years of work by Council and UE, investigating the possibility of bringing 21st century energy services to Doncaster Hill. It is unlikely that this project would have achieved this major milestone without the support of the DMIA and the close cooperation of all involved.

1.2 Virtual Power Plant (VPP) Project

In September 2013 UE submitted a request to the AER to seek indicative up-front approval to use the remaining 2011-2014 allocation of Demand Management Incentive Scheme (DMIS) funding (part A) to support the development of UE's Virtual Power Plant (VPP) 50kW Residential Pilot Project.

With the rapidly falling price of solar PV and battery storage, UE is eager to explore the use of solar PV and controlled battery storage technology to develop an incremental approach to addressing immediate capacity shortfalls and defer traditional network augmentation solutions which by comparison, provided a much larger step change in available capacity. VPP could be a useful alternative in environments of low peak demand growth, targeting those areas of the network where future peak demand could decline, potentially leading to under-utilised network assets or where the cost of additional capacity on the network is higher than average. The aim of the project is to validate or otherwise, the use of a VPP to manage embedded generation and storage in a residential setting for the provision of efficient and prudent non-network augmentation.

¹ <http://www.doncasterhill.com/donhilloverview/sustainability/smart-energy-zone>

The VPP integrates the operation of both supply and demand-side assets to meet customer demand for energy services in both the short and long-term. To match short-interval load fluctuations, the VPP is intended to make extensive and sophisticated use of information technology, advanced metering, automated control capabilities, and electricity storage. The VPP concept also treats long-term load reduction achieved through energy efficiency investments, distributed generation, and verified demand response on an equal footing with supply expansion. Thus, this approach extends the boundary of utility capacity investments through the meter, with its expanding communication and control capabilities, all the way to customer-side equipment.

The VPP project costs are predominantly made up of one-off setup costs, including risk assessments and controls, technology evaluations, establishing the VPP central control unit and system integration. In addition, this includes a contingency to allow for all the hardware to be removed at the end of the pilot and the premises returned to pre-trial condition if required. Costs have also been allocated for equipment certification and testing, system integration, customer site modifications, remote communications equipment, installation and contingency.

To date UE has developed the project plan and resourcing requirements, identified appropriate business models, selected the trial sites, developed equipment performance specification, undertaken necessary risk assessments and issued a RFQ for provision of hardware for the stage 1 trial.

2 Regulatory Requirement and Compliance

The AER, in its Demand Management Incentive Scheme applied to UE for the 2011-2015 regulatory period, sets certain criteria and reporting requirements for expenditure from the DMIA. These are detailed below along with a description of how UE complies with each of these requirements for each project.

2.1 DESS Project

“1. Demand management projects or programs are measures undertaken by a DNSP to meet customer demand by shifting or reducing demand for standard control services through non-network alternatives, or the management of demand in some other way, rather than increasing supply through network augmentation.”

One of the objectives of the District Energy Service Scheme is to defer the proposed network augmentation of establishing Templestowe Zone Substation (or Doncaster 4th transformer), currently detailed in UE’s 2013 Distribution Annual Planning Report². Solutions provided by the two service providers in their commercial feasibility reports include opportunities to shift or reduce demand as an alternative to network augmentation.

“2. Demand management projects or programs may be:

(a) broad-based demand management projects or programs—which aim to reduce demand for standard control services across a DNSP’s network, rather than at a specific point on the network. These may be projects targeted at particular network users, such as residential or commercial customers, and may include energy efficiency programs and/or

(b) peak demand management projects or programs—which aim to address specific network constraints by reducing demand on the network at the location and time of the constraint.”

The DESS aims to address specific network constraints by reducing demand on the network at the location and time of the constraint. UE’s Doncaster Zone Substation supplies much of this developing area around Doncaster Hill. According to UE’s Distribution Annual Planning Report 2013, Doncaster Zone Substation is

² <http://uemg.com.au/about-us/regulatory-framework/electricity-regulation/network-planning-reports.aspx>

fully developed with three 20/27MVA 66/22kV transformers and supplies the areas of Doncaster, Doncaster East, Box Hill North and Templestowe including the Box Hill Central, Doncaster Hill and The Pines precincts. The maximum summer demand of the substation is already above its (N-1) rating, and the maximum demand is expected to continue to increase by at least 1-2MW per annum for the foreseeable future. With major commercial and high density residential developments occurring in the Doncaster Hill area, there is a need by 2019 to build a new 66/22kV 20/33MVA zone substation in Templestowe to offload the Doncaster zone substation (or to augment Doncaster Zone Substation with a 4th transformer) thereby providing additional capacity for the Doncaster Hill area. The report identifies that the DESS should help to defer the need for network augmentation beyond this time.

“3. Demand management projects or programs may be innovative, designed to build demand management capability and capacity and explore potentially efficient demand management mechanisms, including but not limited to new or original concepts.”

The two District Energy Service Scheme commercial feasibility study reports offer quite different and novel solutions for the area. The reports identify commercially viable demand management opportunities within the precinct which can be developed within the existing regulatory and planning frameworks.

“4. Recoverable projects and programs may be tariff or non-tariff based.”

The DESS project is non-tariff based.

“5. Costs recovered under the DMIS:

(a) must not be recoverable under any other jurisdictional incentive scheme

(b) must not be recoverable under any other Commonwealth or State/Territory Government scheme and

(c) must not be included in forecast capital or operating expenditure approved in the distribution determination for the regulatory control period under which the DMIS applies, or under any other incentive scheme in that determination.”

Costs recovered under the DMIS for the DESS project are costs incurred by UE in procuring expert consulting services. These costs have not been recovered from any other scheme. The costs do not include labour for UE and Council employees' time toward this project. This cost is absorbed by each organisation and is regarded as in-kind contribution towards the project.

“6. Expenditure under the DMIA can be in the nature of capital or operating expenditure. The AER considers that capex payments made under the DMIA could be treated as capital contributions under clause 6.21.1 of the NER and therefore not rolled into the regulatory asset base (RAB) at the start of the next regulatory control period. However the AER's decision in that regard will only be made as part of the next distribution determination.”

All costs incurred by UE under the DMIS for the DESS project are classified as operating expenditure.

2.2 VPP Project

“1. Demand management projects or programs are measures undertaken by a DNSP to meet customer demand by shifting or reducing demand for standard control services through non-network alternatives, or the management of demand in some other way, rather than increasing supply through network augmentation.”

The VPP project attempts to combine the capabilities of solar PV generation and battery storage to flatten out the demand profile by charging the battery during the middle of the day when solar PV generation is at its maximum and discharging the battery during the early evening when residential demand is at its maximum. Aggregating VPP units will provide a system that can be dispatched to manage network capacity constraints.

“2. Demand management projects or programs may be:

(a) broad-based demand management projects or programs—which aim to reduce demand for standard control services across a DNSP’s network, rather than at a specific point on the network. These may be projects targeted at particular network users, such as residential or commercial customers, and may include energy efficiency programs and/or

(b) peak demand management projects or programs—which aim to address specific network constraints by reducing demand on the network at the location and time of the constraint.”

The VPP aims to address specific network constraints by reducing demand on the network at the location and time of the constraint. If the VPP concept is proven, it is intended to locate such units in areas where there are identified network constraints. In the first instance, this is likely to be in areas where there are significant distribution transformer constraints by clustering the VPP units in localised areas. Ultimately the goal is to alleviate constraints higher up in the network such as at the distribution feeder or zone substation level.

“3. Demand management projects or programs may be innovative, designed to build demand management capability and capacity and explore potentially efficient demand management mechanisms, including but not limited to new or original concepts.”

The VPP offers a new solution for a constrained network area, particularly where load growth is low, uncertain or is expected to plateau in future. The ability to provide incremental amounts of capacity through combining renewable generation and storage to meet the demand as it materialises could be economic against a more traditional network solution that provides significant step increases in capacity at higher cost. The VPP is intended to test this concept.

“4. Recoverable projects and programs may be tariff or non-tariff based.”

The VPP project is non-tariff based.

“5. Costs recovered under the DMIS:

(a) must not be recoverable under any other jurisdictional incentive scheme

(b) must not be recoverable under any other Commonwealth or State/Territory Government scheme and

(c) must not be included in forecast capital or operating expenditure approved in the distribution determination for the regulatory control period under which the DMIS applies, or under any other incentive scheme in that determination.”

Costs recovered under the DMIS for the VPP project are costs incurred by UE in procuring expert consulting services, equipment and installation services for the trial. These costs have not been recovered from any other scheme. The costs do not include labour for UE employees’ time toward this project. This cost is absorbed by the organisation and is regarded as in-kind contribution towards the project.

“6. Expenditure under the DMIA can be in the nature of capital or operating expenditure. The AER considers that capex payments made under the DMIA could be treated as capital contributions under clause 6.21.1 of the NER and therefore not rolled into the regulatory asset base (RAB) at the start of the next regulatory control period. However the AER’s decision in that regard will only be made as part of the next distribution determination.”

All costs incurred by UE under the DMIS for the VPP project are classified as operating expenditure.

2.3 DMIS Reporting

The information contained in this report and its attachment appendices is suitable for public publication.

The AER requires that a DNSP's annual report must include the following for each project.

2.3.1 DESS Project

1. The total amount of the DMIA spent in the previous regulatory year, and how this amount has been calculated.

United Energy had the following expenses during the 2013 calendar year on activities associated with the DMIA for the DESS project.

- \$28,880 excl. GST for costs associated with engaging AECOM for the DESS study verification review. UE contracted directly with AECOM through a competitive RFQ process to achieve the lowest cost.

2. An explanation of each demand management project or program for which approval is sought, demonstrating compliance against the DMIA criteria in section 3.1.3 with reference to:

(a) the nature and scope of each demand management project or program

The DESS project involves formulating a suitable model for establishing a commercially viable DESS in the Doncaster Hill Smart Energy Zone area. Council and UE did not want to be prescriptive of the type of technology or solution to be implemented for the Doncaster Hill DESS, rather to have a commercially viable solution that could be established within the existing regulatory framework and meet Council's objective of reduced greenhouse gas emissions and UE's objective for network augmentation deferral through non-network solutions. The project design is such that much of the technical detail has relied largely on the specific technical and commercial expertise of the entities that were invited to respond to the RFQ and subsequently the two entities that provided the detailed study reports. The preferred provider announced by Council in 2013 offered a model that maximises the objectives of Council and UE including the ability to defer network augmentation.

(b) the aims and expectations of each demand management project or program

The Doncaster Hill Strategy was adopted by the Council in 2002 and outlined the Council's vision for a vibrant, high density and sustainable growth area for Manningham and was enacted in the Doncaster Hill Planning scheme. It is important to clarify that the Council sees its role in delivering the DESS project as being an "active facilitator" with the aim of identifying a solution that achieves the commercial objectives of developers and the planning and environmental aspirations of the Manningham community.

United Energy envisages a similar facilitation role for development of private and local energy grid infrastructure. However larger scale network planning has identified augmentation requirements which are likely to be able to be deferred from the range of energy management options identified by the project.

(c) the process by which each project or program was selected, including the business case for the project and consideration of any alternatives

The quest to identify a commercially feasible district based solution to address the energy needs of Doncaster Hill commenced through an Expression of Interest (EOI) process. The EOI closed on 23rd November 2011 and a number of responses were received including responses from:

- AG Coombs;
- Cogent / Origin Energy;
- Dalkia;
- GDF Suez (COFELY Australia); and
- Total Energy Solutions / Aurora Energy / Transfield Services (MSEZ consortium).

A project steering committee was established comprising of Council and UE representatives to assess the submissions. Through a formalised selection process, two respondents were invited to undertake a more detailed feasibility study through a Request for Quotation (RFQ) process, these being:

- GDF Suez (COFELY Australia); and
- Total Energy Solutions / Aurora Energy / Transfield Services (MSEZ consortium).

A DMIA budget allocation was used to contribute toward the feasibility work and this was shared equally between the two successful RFQ respondents. In responding to the EOI all respondents were made aware that there would be some requirement to invest their own resources on a venture basis to complement the DMIA funding stream. Therefore the DMIA funding did not cover the full costs incurred by the two successful providers.

In 2013, Council and UE engaged AECOM to undertake a verification review of the two study reports provided by the two study providers. The study reports were assessed on their ability to maximise the strategic objectives for the project. Based on the results of the verification review, Council announced publically on 13th August 2013 the preferred provider of the DESS for Doncaster Hill, being COFELY Australia.

(d) how each project or program was/is to be implemented

The DESS project is being implemented in a number of stages.

The initial stage was the establishment of a MoU between UE and Council. This was completed in August 2011 with an official signing ceremony at Council's August meeting, with speeches by UE and Council CEOs³. For a copy of the MoU, refer to Appendix 1c.

In November 2011, Council in consultation with UE issued an EOI to the market to request suitably qualified district energy service providers to register their interest for undertaking a study to identify a technically and commercially viable model for a DESS solution specific for Doncaster Hill.

The next stage was the securing of funding through the DMIA with the UE application sent to the AER in January 2012, with an associated letter of support from Council. Refer to Appendix 1a and 1b. In March 2012, the AER responded to UE, endorsing the application. Refer to Appendix 1d.

In April 2012, Council in consultation with UE, issued an RFQ to the two shortlisted providers from the EOI process (COFELY Australia and MSEZ Consortium) to request offers for services to develop a DESS study to identify a technically and commercially viable model for a DESS solution specific for Doncaster Hill.

In July 2012 with the high quality of both proposals submitted, Council and UE decided to engage both service providers to independently undertake the commercial feasibility study, to maximise the opportunity for at least one proposed solution to be commercially viable. A developers' breakfast information session was held in July 2012 which was open by invitation to all building developers in Doncaster Hill, an important stakeholder group needed to be consulted for project viability. This session provided the opportunity for the two service providers to introduce themselves and start the consultation and negotiation process necessary to develop a commercially viable solution.

In August 2012, Roberts Evaluation consulting firm was engaged to establish the planning and evaluation framework for this project with a workshop held and a Project Monitoring and Evaluation plan developed. This plan is a living document and will be updated quarterly throughout the course of the project.

3

http://www.manningham.vic.gov.au/action/NOTEMPLATE?s=0,pURL=mr_30august2011_understandingons_martenergyzone,

In October 2012, the two service providers presented their findings of their draft reports to Council and UE. Reports were finalised thereafter. The COFELY Australia DESS study report and the MSEZ DESS study report were included in the 2012 DMIS Report. Both reports proposed commercially viable solutions that go some way to providing network augmentation deferral.

UE in consultation with Council (and with the endorsement of the two service providers), engaged AECOM to undertake an independent verification of the two study reports. Refer appendix 1e. This work was completed in April 2013 with a verification report prepared for each of the two study providers. Refer appendix 1f and 1g.

Also in 2013 UE began to negotiate terms and conditions for a future network support agreement with the providers that will be used for developing network support services for a non-network solution to defer the planned network augmentation. The study reports together with the developed draft agreements will be assessed as non-network solutions for the Templestowe zone substation Regulatory Investment Test for Distribution (RIT-D) process expected during 2015.

In August 2013, Council publically announced its preferred provider for the precinct being COFELY Australia with a media release⁴. Refer appendix 1h and 1i.

(e) the implementation costs of the project or program and

In 2013, costs used from the DMIA were allocated to verifying the content of each of the two DESS study reports.

(f) any identifiable benefits that have arisen from the project or program, including any off peak or peak demand reductions.

To date, two commercial feasibility studies have been completed and a preferred provider announced by Council. Each study has identified opportunity for peak demand reductions.

3. The costs of each demand management project or program:

(a) are not recoverable under any other jurisdictional incentive scheme,

(b) are not recoverable under any other state or Commonwealth government scheme, and

(c) are not included in the forecast capital or operating expenditure approved in the AER's distribution determination for the regulatory control period under which the DMIS applies, or under any other incentive scheme in that determination.

- Expenditure under the demand management incentive scheme is not eligible for recovery under any other jurisdictional incentive scheme
- Expenditure under the demand management incentive scheme is not eligible for recovery under any other state or Commonwealth government scheme
- Expenditure under the demand management incentive scheme has not been approved in the AER's distribution determination for the regulatory control period under which the scheme applies, or under any other incentive scheme in that determination.

4. An overview of developments in relation to projects or programs completed in previous years of the regulatory control period, and of any results to date.

Not applicable.

⁴ http://www.manningham.vic.gov.au/action/NOTEMPLATE?s=0,pURL=mr_aug13_hillenergy,

2.3.2 VPP Project

1. The total amount of the DMIA spent in the previous regulatory year, and how this amount has been calculated.

United Energy had the following expenses during the 2013 calendar year on activities associated with the DMIA for the VPP project.

- \$304,110 excl. GST for costs associated with engaging external consultants for the planning of the VPP project and procurement of associated equipment for the trial. UE undertook a competitive tendering process for procurement of equipment.

2. An explanation of each demand management project or program for which approval is sought, demonstrating compliance against the DMIA criteria in section 3.1.3 with reference to:

(a) the nature and scope of each demand management project or program

A VPP can be defined as a cluster of grid-connected distributed generation and storage plants that are monitored and controlled by an operator for energy trading and grid benefits. When combined, the cluster can then be treated as a single power plant. For UE's VPP project we intend to use solar PV and battery storage technologies which when combined can act to reduce peak electricity demand.

(b) the aims and expectations of each demand management project or program

The aim of stage 1 of the project is to test the VPP concept and its ability to control peak demand through the dispatch of battery storage optimised against solar PV generation.

Traditional network solutions usually result in sunk capital; the resulting augmented asset cannot be easily recovered and used elsewhere if future demand falls. This project's aim is to validate or otherwise, the use of a VPP to manage embedded generation and storage in a residential setting for the provision of efficient and prudent network augmentation. The solution will be validated if it:

- Effectively avoids/defers CAPEX/OPEX requirements in a prudent and efficient manner.
- Is the most economic outcome when actual costs and benefits are known.
- Is a technically appropriate solution with appropriate mitigation of any risks.

The objectives of this project are to validate VPP as a suitable approach for managing augmentation on the UE distribution network with no adverse impacts to network reliability and safety. The VPP project aims are:

- To test the current state of the technology and its ability to scale.
- To identify the risks.
- To test and assess the level of control that can be achieved with commercially available devices currently on the market.
- To develop an understanding of the economics of the solution and validate the solution is a viable load management tool by exploring and then testing the business model(s), taking the generation, retail and distribution aspects into consideration.
- To explore and test the contractual and commercial agreements with 3rd parties and Residential Hosts (customers).

(c) the process by which each project or program was selected, including the business case for the project and consideration of any alternatives

This project proposes VPP as a solution to address peak demand issues in low voltage feeders when augmentation costs using traditional solutions are high. It is anticipated that in the future, distributed generation and storage will have application for the entire network as costs continue to fall.

(d) how each project or program was/is to be implemented

The overall VPP project has been broken into three key stages to ensure that appropriate governance over costs, risks and benefits and associated gating and review are applied at each stage, with each stage being subject to independent approval. Stage 1 (present stage) consists of a VPP system comprising between eight and fourteen installations at residential sites totalling 50kW. The installation sites will be limited to UE employees and VPP project team members' premises within the UE distribution area to manage identified risks. Stage 1 will be operated over a period of 12 to 15 months to test the economics and commercial models and understand the technology's capabilities, limitations and suitability for larger scale deployment. This stage will provide a full year of energy flow data through seasonal variations. It is intended to have Stage 1 operational and with sufficient data captured by September 2014.

(e) the implementation costs of the project or program and

In September 2013 UE submitted a request to the AER to seek indicative up-front approval to use the remaining 2011-2014 allocation of Demand Management Incentive Scheme (DMIS) funding (part A) totalling \$1,512,640 to support the development of UE's Virtual Power Plant (VPP) 50kW Residential Pilot Project. This was endorsed by the AER on the 2nd October 2013. The overall VPP project stage 1 is estimated to cost \$1.75M.

(f) any identifiable benefits that have arisen from the project or program, including any off peak or peak demand reductions.

Given the early stages of the project, to date no peak demand reductions have been achieved.

3. The costs of each demand management project or program:

(a) are not recoverable under any other jurisdictional incentive scheme,

(b) are not recoverable under any other state or Commonwealth government scheme, and

(c) are not included in the forecast capital or operating expenditure approved in the AER's distribution determination for the regulatory control period under which the DMIS applies, or under any other incentive scheme in that determination.

- Expenditure under the demand management incentive scheme is not eligible for recovery under any other jurisdictional incentive scheme
- Expenditure under the demand management incentive scheme is not eligible for recovery under any other state or Commonwealth government scheme
- Expenditure under the demand management incentive scheme has not been approved in the AER's distribution determination for the regulatory control period under which the scheme applies, or under any other incentive scheme in that determination.

4. An overview of developments in relation to projects or programs completed in previous years of the regulatory control period, and of any results to date.

Not applicable.

3 Attachments

3.1 DESS Project

- 3.1.1 Appendix 1a – United Energy applications to AER**
- 3.1.2 Appendix 1b – Manningham City Council Letter of Support**
- 3.1.3 Appendix 1c – United Energy / Manningham City Council MoU**
- 3.1.4 Appendix 1d – AER response to United Energy**
- 3.1.5 Appendix 1e – Solution Verification Review RFQ**
- 3.1.6 Appendix 1f – Verification Review Report 1**
- 3.1.7 Appendix 1g – Verification Review Report 2**
- 3.1.8 Appendix 1h – Council Media Release for Preferred Provider**
- 3.1.9 Appendix 1i – DESS Presentation**

3.2 VPP Project

- 3.2.1 Appendix 2a – United Energy applications to AER**
- 3.2.2 Appendix 2b – AER response to United Energy**