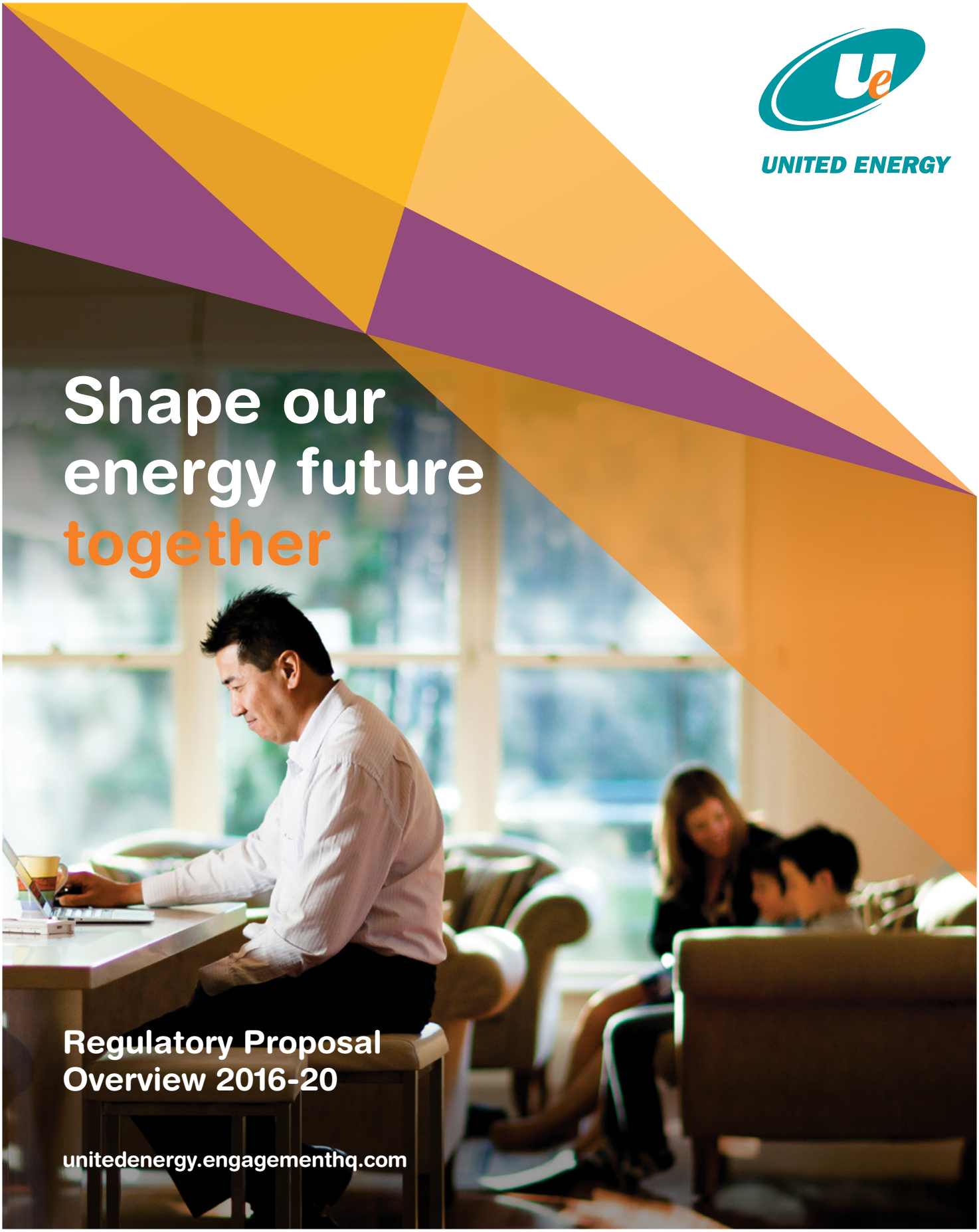
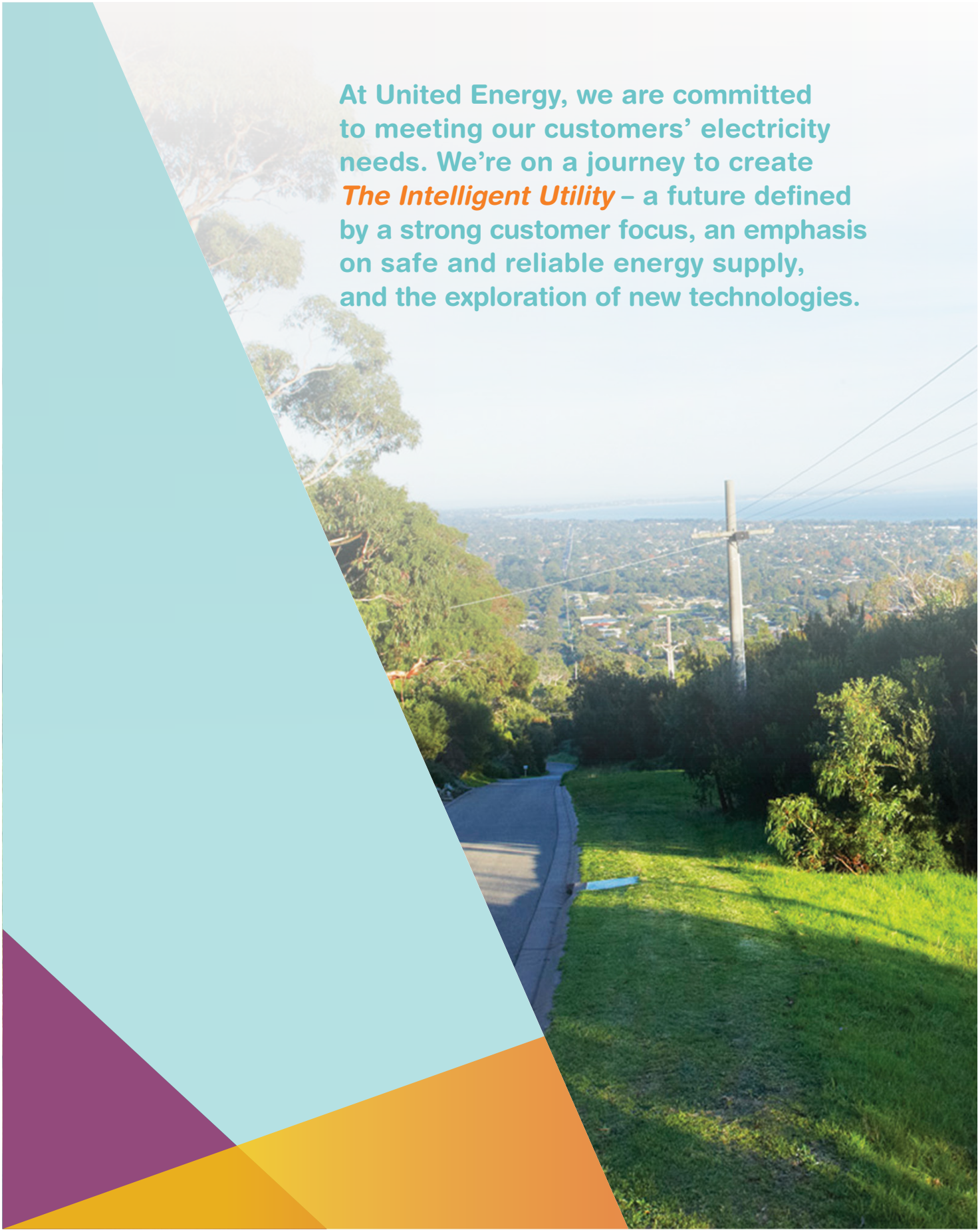
UNITED ENERGY

Shape our energy future together



Regulatory Proposal Overview 2016-20

unitedenergy.engagementhq.com



At United Energy, we are committed to meeting our customers' electricity needs. We're on a journey to create *The Intelligent Utility* – a future defined by a strong customer focus, an emphasis on safe and reliable energy supply, and the exploration of new technologies.

OVERVIEW

CONSIDERATIONS

WHAT'S NEXT?

25% ↓

The amount lower, in real terms, our charges are today compared with 1995.

A word from our CEO

I AM PLEASED TO PRESENT THIS OVERVIEW OF OUR PROPOSAL FOR THE 2016-20 REGULATORY PERIOD.

In this next regulatory period, we will provide our customers with improved services, access to better technology and a price reduction of approximately $70 in 2016.

We have been providing safe and reliable electricity to the people of east and south -east Melbourne and the Mornington Peninsula since we were privatised in 1994. In those twenty years, we have witnessed enormous changes to the way our community uses the energy we help provide via our network of poles and wires.

We are now seeing more energy efficient appliances driving lower electricity use in households and businesses, reversing a decades old trend of growing energy demand from one year to the next. At the same time, we are continuing to strengthen the electricity network to support growing demand for electricity at peak times, during Melbourne's hot summer days and early evenings. Keeping the lights on at an affordable price is now more challenging than ever.

History shows we've done a pretty good job on price. Today, our charges are some 25 per cent less, in real terms, than they were in 1995. This is a great outcome for our customers. Reliability has also improved, by almost three times over that time. We now manage our network with near real-time information from 640,000 smart meters, replacing the old school pin board we once used to monitor your supply.

The Australian Energy Regulator's (AER) annual benchmarking report indicates that we are one of the most efficient distributors nationally across a variety of measures, alongside our Victorian and South Australian peers.

This has not been an overnight success. As our experience has shown, efficiency initiatives take time to introduce and embed across the business before the full benefits can be realised over time.

We are acutely aware that despite privatised networks in Victoria delivering superior outcomes in terms of cost and performance, electricity affordability is a major issue for our customers.

That's why we've been focused on delivering real price cuts in the 2016-20 period.

At the start of the current regulatory period we set out to transform our business to an operating model that delivers maximum efficiency and performance for our customers and shareholders. We are proud of our record of delivering on the commitments we made five years ago and we intend to build on our reputation for delivering on our promises over the next regulatory period.

While 2011-15 was about transforming our business to position for the future, the 2016-20 period is focused squarely on our customers. Our customers have told us that they want better information faster, about the performance of the network and the energy choices they make. That means empowering them with access to real-time information and data, to give them greater control.

Our objective is to make dealing with us an effortless experience for our customers, to give them the information they need to make choices and then to provide opportunities to exercise that choice through technology innovation on our network.

New technologies will add to the complexity of energy supply, as solar PV has done in some areas, enhancing customer choice and environmental outcomes. Coupled with the growing population and urbanisation of the Melbourne metropolitan area, and the increasing reliance on reliable and affordable power for our information and service economy, we believe the grid will retain its primacy in the distribution of energy, leading to the efficient integration and sharing of these technologies in harmony with the grid.

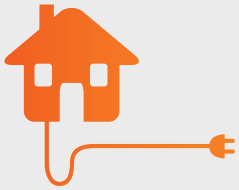
We look forward to providing at least another twenty years of safe and reliable electricity to our community.

I would like to acknowledge and thank our many stakeholders and customer group representatives for the hours they have committed to provide us with input and constructive feedback in the development of our proposal. The product is undoubtedly better for the exchange of views and ideas that we have shared over the past twelve months.

Hugh Gleeson
Chief Executive Officer
United Energy and Multinet Gas

Putting a price on distribution

ELECTRICITY DISTRIBUTION INFRASTRUCTURE IS ON EVERY STREET.



Because electricity distribution infrastructure is large and expensive, it's most efficient to have one network distributing electricity to any one region.

This means that most of our services are not open to competition. So, while you get to choose which retailer to buy your electricity from, your distributor simply depends on where you live.

We operate under a distribution licence issued by the Essential Services Commission of Victoria. The Australian Energy Regulator (AER) determines the prices we can charge for our services.

Every five years, the AER reviews the pricing structure for electricity distribution and resets prices for the next five years. These prices reflect the costs of investing in the network and running it to ensure we keep the lights on in line with your expectations, plus a fair rate of financial return.

This process is the Electricity Distribution Pricing Review.

The 2010-15 regulatory period was one of significant change and transformation for our business. Our investment strategy was aimed at restructuring our sourcing arrangements and fine tuning our core functions.

The traditional role of distribution businesses is changing and when United Energy started on its transformation journey, it was with the knowledge that we would have to become a more outwardly focused business.

Our priority in the 2016-20 period (second only to safety) is to embed customer-centric engagement into every part of our business while delivering on what our customers have identified as their priorities.

WE'RE A LINK IN THE ENERGY SUPPLY CHAIN

Covering just one per cent of Victoria's land area, our distribution network serves around 25 per cent of the state's population and provides for around 20 per cent of Victoria's maximum demand for electricity.

It's our job to keep the power on, via our network of infrastructure that transforms electricity from sub-transmission voltages to voltages that are suitable for supply to homes and businesses.

We deliver safe and reliable electricity to more than 650,000 customers across east and south-east Melbourne and the Mornington Peninsula.

IN ALL, WE OPERATE AND MAINTAIN A NETWORK OF:

47
Zone substations

13,700
Distribution substations

215,000
Poles

10,100
Kilometres of overhead power lines

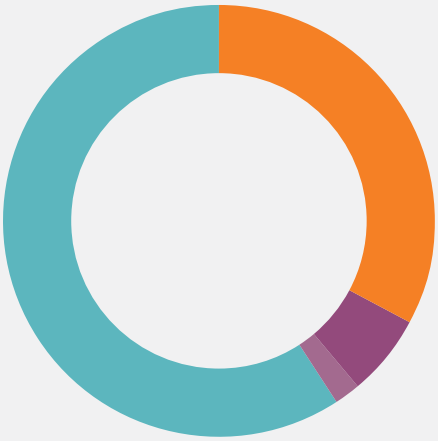
2,800
Kilometres of underground cables

OUR CHARGES REPRESENT APPROXIMATELY 33 PER CENT OF THE AVERAGE ELECTRICITY BILL.

WHAT'S IN A BILL?

A key challenge for all network distribution businesses is building customer awareness of how network changes contribute to an average electricity bill.

Typically, the charge for running the network in Victoria makes up about 30 per cent of the average bill. This is much lower than in most other states.



- 33% UE network charges
- 6% Transmission
- 2% Solar feed in tariff
- 59% Retail and wholesale energy charges

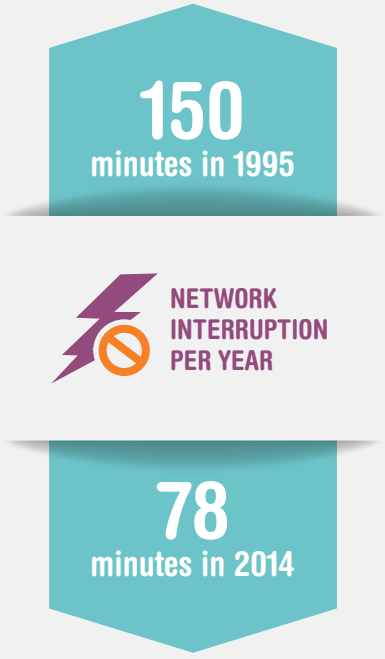
Our track record

OUR AVERAGE CHARGES ARE 25 PER CENT LOWER, IN REAL TERMS, THAN THEY WERE IN 1995.

Since United Energy was privatised in 1994, we have delivered significant price reductions for the network services we provide to our customers.

In fact, by the time the current period ends, our average prices will be 25 per cent lower, in real terms, than they were in 1995.

We have been able to maintain price control over the last 20 years without sacrificing the quality of our service. In fact, it has dramatically improved. In 1995, the average customer on our network experienced approximately 150 minutes of interruptions to electricity supply per year. This year, the average customer will spend just 78 minutes without supply.



How we compare

THE AER RECENTLY INTRODUCED BENCHMARKING ACROSS REGULATED NETWORK BUSINESSES NATIONALLY.

This benchmarking provides measures to compare businesses in different states and territories and helps to encourage efficiency in the interests of customers.

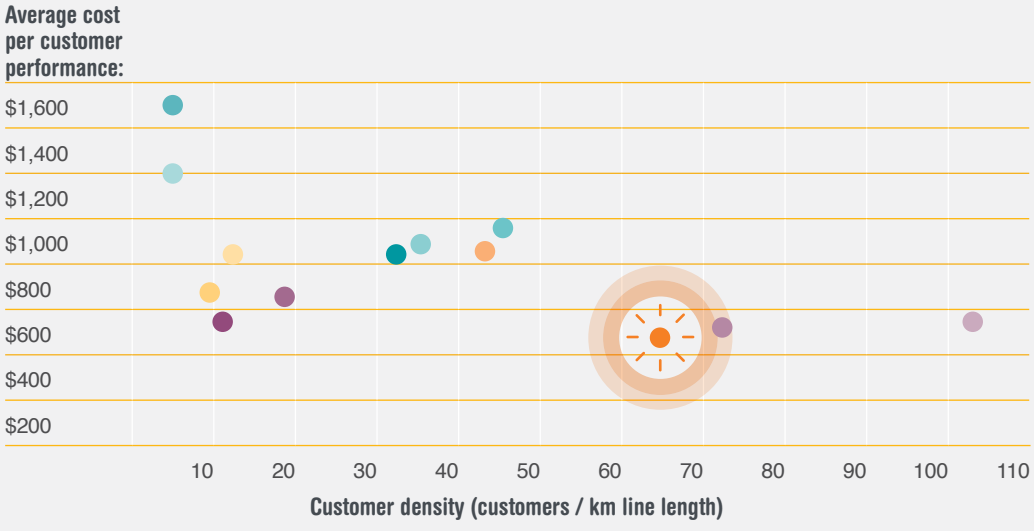
The AER's benchmarking analysis shows that our average annual total cost per customer is one of the lowest in the National Energy Market.

This means that our customers pay less on average than people in other areas.

Benchmarking conducted by the AER, alongside our own commissioned study supports the view that as an efficient DNSP, we are in the top quartile of our peers. We have sustained this efficient performance over many years and are clearly responding to the incentives that the regulatory regime presents.

In responding to regulatory incentives we have also consistently delivered value for money to our customers which we will continue to do in the forthcoming regulatory period.

TOTAL COST PER CUSTOMER COMPARED TO CUSTOMER DENSITY (AVERAGE 2009–13)



VICTORIA
- United Energy
- Powercor
- AusNet Services
- Jemena Electricity Networks
- CitiPower

QUEENSLAND
- Energex
- Ergon Energy

ACT
- Actew AGL

NEW SOUTH WALES
- Ausgrid
- Endevour Energy
- Essential Energy

SOUTH AUSTRALIA
- South Australia Power

TASMANIA
- TasNetworks

Innovating for better value

640,000

Number of smart meters installed across our network.

IN THE CURRENT REGULATORY PERIOD, WE HAVE TRANSFORMED OUR BUSINESS TO DELIVER BETTER VALUE TO OUR CUSTOMERS IN THE FUTURE.

By focusing on building greater flexibility into our business and our strategies, we are better placed to manage change in risk while delivering the best possible value proposition for our customers.

Our transformation journey included consolidating functions and establishing a Network Control Centre to improve service delivery outcomes and position the business to realise the network benefits from the completion of the smart meter roll out.

Maintaining a safe and reliable supply of electricity for our customers is always our first priority but we challenged ourselves to do this as cost effectively and innovatively as possible, to ensure any costs passed on to customers are as low as possible.

In January 2014 we commenced the voluntary Summer Energy Demand trial to test customers' response to financial incentives to reduce peak demand and build understanding of the impact of peak demand on electricity prices.

We have also been actively engaged in the debate on reforms to network pricing and in mid-2015 will introduce a voluntary demand tariff for the first time. One of the objectives of this new tariff is to create price signals that support more effective peak demand management and reduce the need to invest in capacity that is called upon for only a few days per year.

High efficiency

We have consolidated our position as a highly efficient business compared to our peers.

Customer service

We have delivered a level of network service with which customers are generally satisfied.

Smart meter roll out

Our roll out of smart meters is already delivering significant benefits to customers.

New initiatives

We explored new demand side initiatives to help meet growing peak demand.

Focused on safety

We have maintained our focus on safety as our top priority.

Putting smart meters to work

OUR PRIORITY NOW IS TO ENSURE THE AMI PROGRAM DELIVERS MAXIMUM BENEFITS FOR OUR CUSTOMERS.

We successfully completed the roll out of the Advanced Metering Infrastructure (AMI) or 'smart meters' in 2014, meeting our best endeavours obligation under the Victorian regulations.

While the roll out was a significant achievement, our priority now is to ensure that the AMI program delivers maximum benefits to our customers.

Our *Energy Easy* portal was the first portal of its kind in Australia, enabling customers to access their energy consumption data in near real-time.

This secure internet-based service, when teamed with smart meters, enables our customers to more easily understand their electricity use, and manage their electricity costs more effectively.

The *Energy Easy* portal can be accessed on multiple devices including smart phones, tablets, in-home computer systems as well as desktop and laptop computers.

Energy Easy puts customers in control of their electricity consumption like never before, allowing them to:

- Download energy consumption in half hourly intervals.
- View half hourly energy consumption on a daily, weekly, seasonal and annual basis.
- Compare usage with similar customers.
- Set maximum daily consumption reminders.
- Receive emails and text messages for unplanned outages in their area.
- Pair in-home display devices with their AMI meter.

AMI also provides benefits to the network, creating cost savings and efficiencies that lead to lower prices and better service, such as:

- More than 54,000 connections and disconnections were completed remotely in 2014. Charges paid by customers for these services have been reduced by more than $30 for each transaction, delivering aggregate savings to customers to date of over $1.6 million for this activity alone.
- More than 2,300 unnecessary truck visits to customers' premises have been avoided in 2014. The savings to these customers range from $51 per truck visit, or up to $115 if the service is required outside normal business hours.
- More than 5,000 remote meter reconfigurations in 2014 facilitated data collection of net solar energy exported to our network. Avoided site visits to undertake a meter exchange to a bi-directional meter resulted in customer savings of over $100 for each transaction.
- Prior to the AMI roll out, we conducted around 35,000 special meter reads each year. Now that number has been reduced to around 1,200, delivering savings of around $1 million per annum.
- The collection of data remotely allows customers to be billed on actual data and avoids estimated bills and associated customer enquiries and complaints.

Our customers can track their energy usage in near real-time on any mobile device and computer with our *Energy Easy* portal.

$1mil

The amount smart meters save annually in special meter reads alone.

AMI ALLOWS US TO MANAGE THE NETWORK SMARTER AND MORE SAFELY, WHICH IS OUR HIGHEST PRIORITY.

- Hazardous 'Loss of Neutral' faults can now be detected remotely.
- Neutral integrity testing can be undertaken largely remotely, avoiding site visits and manual testing at around 65,000 premises per annum. This results in annual savings of approximately $2.6 million.
- Enhanced monitoring of supply to life support customers can be undertaken during storm events.
- Faults can be identified remotely, to avoid wasted truck visits and restore supply more quickly.
- Improved voltage data provides us with a better understanding of equipment failure risks and assessment of damage claims.
- Improved data on transformer peak load and the likely requirement for transformer upgrades facilitates more efficient use of existing capacity and more efficient investment.
- Calculation of dynamic cyclic ratings for distribution transformers enables us to achieve greater use of the spare capacity in the network.
- Rebalancing of over loaded phases enables us to improve network utilisation on peak demand days, and reduce the need for network augmentation.
- Enhanced load switching enables us to better manage expected peak demand days in high risk areas of the network.
- Facilitating demand side responses, which will deliver capital expenditure savings for our customers. We discuss our recent demand side initiatives in the next section.

We will build on these benefits during the next period, and the one after that, to provide our customers with the best possible network at the lowest possible cost.

Managing our ageing infrastructure

THE AGE OF OUR INFRASTRUCTURE IS A SPECIFIC CHALLENGE FOR OUR NETWORK.

We are focused on delivering safe, reliable electricity and services that meet the needs and preferences of our customers. The age profile of our network infrastructure is a specific challenge to achieving this objective.

The age of our infrastructure is naturally linked to the historic development of the part of Melbourne which we serve.

The significant growth in the network during the 1950s and 1960s, as south -east Melbourne expanded, is now driving increases in investment, as many of our assets approach the end of life.

Ageing assets contribute significantly to the risk of equipment failure and decreased reliability of the network services we deliver to our customers.

This has been reflected in the reliability trend for our network, which is now exhibiting a deterioration in unplanned outages at a rate of 2.7 minutes per year.

In much the same way a family might weigh up increasing maintenance costs of the old wagon against the big outlay for a new SUV, we have to find the balance between getting the most we can from the network, without impacting reliability.

During the next regulatory period we will continue to manage our ageing asset base by finding ways to work our assets harder and defer large capital expenditure and reduce costs to customers where it is efficient to do so.

We will do this by:

- Implementing targeted asset refurbishment programs.
- Enhancing our asset condition assessment and monitoring.
- Better managing the risk and consequences of asset failures.

However, our expenditure plans for the forthcoming period must also address the impacts of our ageing asset base on the reliability performance of our network. Specifically, our expenditure plans must enable us to deliver network services at a reliability standard that meets the needs of our customers.

Controlling regulatory costs

WE ARE SUBJECT TO A BROAD RANGE OF REGULATORY REQUIREMENTS BEYOND THOSE THAT DETERMINE WHAT WE CAN CHARGE FOR OUR SERVICES.

While regulation is important to control costs, enhance safety, protect customers and the environment, meeting regulatory requirements imposes significant costs on our business, which are eventually paid by our customers.

For example, in preparing our Regulatory Proposal, we have had to consider the cost and other impacts of the following new and emerging regulation:

- New rules that establish a national framework for distribution network planning and expansion, including new demand side obligations on us which we have adopted and embedded into our network planning processes.
- New rules that implement the Power of Choice review, including those that enable us to better promote cost reflective pricing.
- New rules that seek to clarify how the existing expenditure objectives relating to reliability, security, and quality work together.
- The expiry from 31 December 2016 of Victoria's derogation from the Rules under which we are the monopoly supplier of type 5 and type 6 metering in our service area. After this date, these metering services will be regulated by the AER under the Rules, rather than under a Victorian Government Order-in-Council (CROIC).
- New requirements for reporting against various Regulatory Information Notices issued by the AER.
- Amendments to the Electricity Safety (Electric Line Clearance) Regulations in response to the Victorian Bushfire Royal Commission.

Meeting peak demand efficiently

25%

The portion of our network that is only used 1% of the year.

SINCE 2010, AVERAGE ANNUAL ENERGY DEMAND HAS BEEN DECREASING.

For successive decades until around 2010, electricity usage in Australia grew relatively consistently.

The way customers used the network was also fairly consistent, with energy flowing one way from large generation plants, through transmission lines before being distributed to homes and businesses on the network.

A combination of increasing electricity costs, new energy efficient household appliances and the wide adoption of solar and environmental concerns has seen this decades old trend reverse since 2010.

Now customers are using less energy overall, with average annual demand decreasing even as they become more and more connected through technology.

The electricity supply chain has also become more complex, with energy now flowing in both directions as solar customers export excess energy back into the grid to offset bills. This complexity is set to increase as new technologies emerge and become affordable to more people.

However, while average demand is going down, peak demand continues to rise.

As the way customers used the network has changed, the traditional way of charging customers for the use of the network has come into question.

While we charge customers for their consumption, we build the network to meet peak demand. This is to provide reliable supply when it is needed most. Additional investment drives up costs to customers.

Under the consumption based network charging structure, common across most of the Australian networks, customers do not have any incentive to reduce peak demand.

Reducing peak demand on a hot summer day can be as simple as using non-essential items like pool pumps and dishwashers at different times, or setting air-conditioners just a few degrees higher.

The costs of building and maintaining the network to meet peak supply requirements are significant, but this capacity is rarely needed. Approximately 25 per cent of our network is only used for 1 per cent of the year.

If we can find ways to contain or reduce peak demand, we can potentially postpone or avoid some of this costly investment. That's good news for customers.

WE ARE TRIALLING A RANGE OF INNOVATIVE WAYS TO ENSURE CONTINUOUS SUPPLY WHILE REDUCING PEAK DEMAND ON OUR NETWORK.

One example is our *Summer Saver* trial, where customers can receive cash rewards for reducing energy consumption on the hottest days of the year. Early results have been very encouraging.

Changing the pricing structure for using the network is another way to change customer behaviour to provide benefits for everyone.

Charging on the basis of capacity or peak demand will create better alignment between the drivers of cost and what customers pay for.

These changes will ultimately be revenue neutral for our business, due to our regulatory system. While it may mean some customers pay marginally more than they do now, for most there will be almost no change, or they'll be better off. Customers who find themselves paying more will be able to reduce their costs with some simple changes to the way they use electricity – and we'll help with that too.

We understand that changes to current pricing structures are sensitive and will take time.

We'll be working with government, regulators and consulting closely with our customers and stakeholder groups to work through the issue.

To start the conversation, we will introduce a new optional pricing structure, known as a demand tariff, in mid-2015.

We've been getting to know you

25%

The portion of Victorians who live in our network area.

OUR CUSTOMER AND COMMUNITY ENGAGEMENT PROGRAM SET OUT TO CAPTURE THE BREADTH OF OUR STAKEHOLDERS' LONG TERM INTERESTS.

To ensure our investment proposals meet the needs, expectations, and long term interests of our customers, we embarked on a comprehensive, multi-channel customer and community engagement program.

The aim of our program was to give customers and other stakeholders the opportunity to express their views and concerns and provide input on how we invest in the electricity network.

Our stakeholders are diverse, so in order to ensure we captured the breadth of their long term interests, our engagement process considered our different stakeholder groups' capacity to engage, the impact of different elements on them, and their areas of influence.

By mapping our stakeholders, we were able to examine the key areas where we were making decisions in the preparation of the Regulatory Proposal and work through how best to consult with our diverse stakeholder and customer groups.

Our engagement program included direct customer engagement through customer kiosks in major shopping centres within our network area and an online engagement portal.

A multi-stakeholder Customer Consultative Forum provided us with an opportunity to discuss in detail what our customers want from our electricity distribution network. We've also run a series of focus groups and conducted a comprehensive best practice survey to assess customers' willingness to pay or trade savings for changes to existing service levels, or the introduction of new services.

We will continue using these insights to ensure our future network investments are targeted and that our service offering meets customers' expectations.

We've written a detailed report on our customer engagement program, called *Shaping our energy future – together*, to support our 2016-20 Regulatory Proposal.

Our priority in the 2016-20 Regulatory period (second only to safety) is to embed customer-centric engagement into every part of our business while delivering on what our customers have identified as their priorities.

We will deliver

$70 ↓

The approximate price cut we will deliver over the 2016-20 period.

THE CURRENT REGULATORY PERIOD WAS ABOUT TRANSFORMING OUR BUSINESS. THE NEXT ONE WILL BE ALL ABOUT THE CUSTOMER.

The traditional role of distribution businesses is changing. When United Energy started on its transformation journey, it was with the knowledge that we would have to become a more outwardly focused business.

EMPOWERING CUSTOMERS

Our IT capital investment will focus on empowering customers with convenient access to information in relation to the network and their energy choices by:

- Providing customers with more accurate and timely information on unplanned outages to assist their decisions in how to respond at home and at work.
- Providing online customer claim facilities and tracking tools.
- Enhancing our existing *Energy Easy* customer portal to allow customers to receive notifications and energy consumption data, and to receive maximum benefit from smart meters.
- Implementing a self-service New Connections portal for customers, electricians and developers to streamline the connections process.

We have introduced the first phase of a major initiative to deliver an Effortless Customer Experience. Our proposed IT investment over the 2016-20 period extends this program to assist customers to better understand their energy choices and provide the tools they need to make these choices in the future.

We will ensure that we meet the engagement expectations of our stakeholders and customers by investing in specialist skills and resources.

AFFORDABILITY

We are acutely aware that despite privatised networks in Victoria delivering superior outcomes in terms of cost and performance, electricity affordability is a major issue for our customers.

We will cut prices by approximately $70 in 2016.

MANAGING THE NETWORK

Our network capital investment will focus on the lowest cost to:

- Maintain existing average reliability standards.
- Improve reliability outcomes for those customers in our worst served areas.

We'll work our assets harder, replacing them at or nearing end of life, so that total life cycle costs and network performance are optimised, keeping costs as low as possible.

We will continue to aggressively pursue alternatives to traditional investment in network capacity to meet growth in peak demand.

New technologies will add to the complexity of energy supply, as solar PV has done, enhancing customer choice and environmental outcomes. However, the grid will retain its primacy in the distribution of energy, becoming a hub of energy trade through the integration of new technologies.

BILL CONTROL

Customers said: *They want to understand their electricity usage patterns to better control their bills.*

We listened: You want to make informed energy choices.

Result: We'll invest in our *Energy Easy* customer portal to provide real-time usage and consumption data in 2016.

COMMUNICATION

Customers said: *They want to be informed of planned and unplanned interruptions.*

We listened: When the power goes out you want accurate information fast.

Result: We will invest in IT solutions to provide better outage information, online customer claims and tracking tools and a self-service portal for new connections to streamline the process for customers, electricians and developers.

VEGETATION MANAGEMENT

Customers said: *We are generally meeting their expectations of looking after the day-to-day issues of vegetation management, safety and aesthetics.*

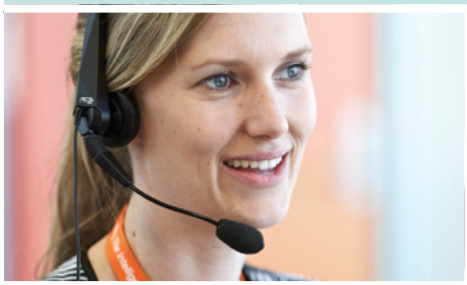
We're listening and

CONSUMPTION

Customers said: *They are willing to respond to incentives to reduce peak demand, although this can be more difficult for business consumers.*

We listened: You would pay closer attention to their usage patterns if it was easy to do.

Result: We will look for new ways to contain or reduce peak demand including the introduction of a new demand tariff, to potentially postpone or avoid costly infrastructure investment.



MARKET TRANSACTIONS

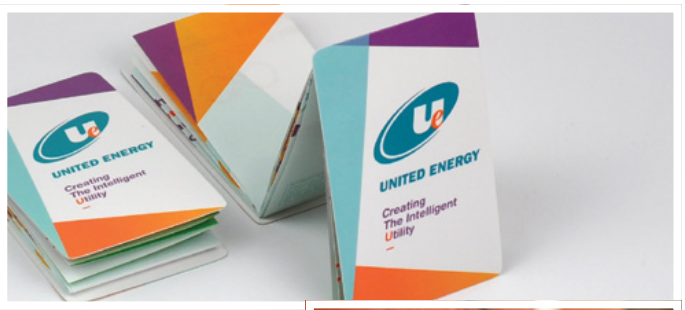
Retailers said: *They want us to improve the quality and reliability of our market transactions and data provision, including the reliability of transfer reads and re-energisation / de-energisation transactions.*

Result: We will continue to invest in our IT systems to improve the quality and reliability of market transactions. We will also take advantage of the remote capabilities of AMI meters for transfer and re-energisation / de-energisation reads.

PUBLIC LIGHTING

Councils said: *They want us to better manage the price/service offering for public lights.*

Result: The AER's Victorian Framework and Approach supported our proposal to split public lighting into two services: a regulated service applicable to services involving shared public lighting assets and a negotiated service which relates to dedicated public lighting assets. The negotiating framework is now in development.



we're taking action

SAFETY & THE ENVIRONMENT

Councils said: *They want us to find better solutions to manage vegetation.*

We listened: Councils want us to balance our safety requirements with local amenity.

Result: We are proposing $3 million for a three-year trial of dedicated vegetation management crews to work with councils in our network area.

INNOVATION

Customers said: *They would respond to incentives to reduce peak demand, although business consumers thought this would be more difficult for them.*

We listened: Councils and some customer groups want us to find alternatives to traditional network investment.

Result: We will continue to pursue non-network solutions including demand side initiatives and emerging technology.

RELIABILITY

Customers said: *They have no appetite to pay more for additional services or improved reliability and generally perceive their reliability to be better than what they actually experience.*

We listened: You want to pay less for the energy you consume.

Result: We will maintain current reliability and cut prices by approximately $70 in the 2016-20 period.

AWARENESS

Customers said: *A large portion of customers don't know who we are and/or what our role in energy supply is.*

We listened: Awareness of who we are is low.

Customers said: *They don't understand the cost breakdown of their retail bills.*

We listened: Electricity pricing is poorly understood and you want to know how much distribution is costing you.

Result: We will embed customer-centric engagement into every part of our business to improve understanding of the value we deliver in energy supply.

+ **$1.2 billion** Network investment

+ **$5 million** Information technology investment

Investment highlights

WE WILL MAINTAIN OUR CURRENT AVERAGE LEVEL OF RELIABILITY.

Our investment proposal is designed to maintain current levels of reliability. This means our customers will experience a loss of supply for an average of 78 minutes per customer, per year.

We propose to invest $1.2 billion on the network, up from $950 million in the 2011-15 period. This is driven by an increase in the volume of asset replacement and investment to reduce the risk of bushfires from electricity distribution infrastructure.

We will increase our information technology investment by $5 million to deliver our Effortless Customer Experience program which will provide customers with better communication about network performance, improve customer service and engagement and empower customers through better access to energy consumption data.

We will reduce our investment to meet peak demand by $30 million, through the pursuit of alternative technology solutions including demand management initiatives and battery storage.

KEY BENEFITS & RISKS FOR CUSTOMERS FROM OUR REGULATORY PROPOSAL

	BENEFITS	RISKS
PRICE CUTS	Customers will receive a price cut of approximately $70 in 2016.	Risk free.
NETWORK PRICING	New network pricing structures, to be introduced after extensive consultation and over time: • Will lead to fairer outcomes for customers by aligning pricing with the drivers of cost (peak demand). • Help us to manage peak demand more effectively and avoid or postpone expensive infrastructure investment, delivering savings to customers.	Changes to current pricing structures are sensitive and will take time, consultation and clear communication with customers. Customers who find themselves paying marginally more will be able to reduce their costs with some simple changes to the way they use electricity – and we'll help with that too.
REVENUE REDUCTION	Further marginal price cuts for customers.	Further cuts, while possible, would reduce service levels and reliability, which we do not believe is in the long term interests of customers and is not supported by our customer engagement and research.
SAFETY	Reduced risk of bushfires from electricity distribution infrastructure on our network.	Potential increased cost to customers.
REGULATORY CHANGE	Regulatory change is generally designed to increase customer protections or deliver safety or environment outcomes.	Regulatory change often requires changes to information technology or network practices which can increase costs, which are passed on to customers.
ACCESS TO INFORMATION	Improved timeliness and quality of information to customers about the performance of the electricity network. Easier access for customers to consumption data, to better inform their decisions about how they buy and use electricity.	Risk free.
NETWORK INNOVATION	Alternatives to traditional investment to address capacity constraints, such as demand management initiatives, can deliver more cost effective ways to manage peak demand, saving customers money.	Alternatives to traditional investment may require changes to customer behaviour to realise their full potential – we are currently trialling a number of strategies to see what works best.

OUR REGULATORY PROPOSAL BY NUMBERS

STANDARD CONTROL SERVICES ($M REAL 2015)	2016	2017	2018	2019	2020	TOTAL
Capital expenditure forecast (gross)	246.5	256.2	253.8	226.8	212.1	1,195.34
Customer contributions	17.7	18.1	18.3	18.7	18.5	91.4
Regulatory asset base	2,188.6	2,302.0	2,404.8	2,493.5	2,562.7	n/a
REVENUE REQUIREMENTS						
Return on Capital (WACC 7.37%)	98.5	104.2	109.6	114.5	118.7	545.4
Regulatory depreciation (forecast)	118.4	130.3	138.1	124.3	128.9	640.0
Operating Expenditure (incl. debt raising costs)	157.7	159.1	159.9	162.6	161.1	800.4
Efficiency benefit sharing scheme (carry over amounts)	3.2	19.3	5.1	0.2	0.0	27.7
Shared Assets	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(2.7)
Corporate tax allowance (gamma 0.25)	31.1	31.2	29.7	22.5	24.4	138.9
Annual revenue requirement (unsmoothed)	408.5	443.4	441.7	423.6	432.6	2,149.8
X-factor (%)	-7.2%	0.00%	0.00%	0.00%	0.00%	n/a
Forecast energy consumption (GWh)	7,585.3	7,600.2	7,672.6	7,726.1	7,776.5	38,360.8
ALTERNATIVE CONTROL SERVICES ($M REAL 2015)						
Metering Annual revenue requirement (unsmoothed)	50.2	47.9	32.5	29.2	28.0	187.7
Metering price cut (%)	63.8%	0.0%	0.0%	0.0%	0.0%	n/a
PRICE IMPACTS						
Indicative average price impacts ($)	(77.4)	0	0	0	0	(77.4)
Indicative average price impacts (%)	-17.2%	0.0%	0.0%	0.0%	0.0%	-17.2%

SERVICE CLASSIFICATION AND CONTROL MECHANISMS	SERVICE CLASSIFICATION	CONTROL MECHANISM
Standard control services - network and connection services	Accept AER classification	Accept revenue cap
Alternative control services - 5,6 & AMIs - not subject to competition	-	Accept revenue cap
Alternative control services - OMR&R shared public lighting	-	Accept fee based
Alternative control services - ancillary network services & other connection services	-	Accept fee based
Negotiated services - other public lighting	-	Accept negotiating framework
Unclassified	-	Accept not applicable

INCENTIVE SCHEMES	
Efficiency benefit sharing scheme	Accept the AER's version 2 of the scheme published in November 2013.
Service target performance incentive scheme	(a) If the AER accepts our proposed capex, then 5% per annum revenue at risk and targets based on historical 5 year average, otherwise (b) propose 1% per annum revenue at risk and targets relaxed for additional minutes expected to be incurred.
Capital Efficiency scheme	Accept the AER's version 2 of the scheme published in November 2013.
Demand Management Incentive scheme	Accept Part A only of AER's version 1 of the scheme published in 2009 - propose DMIA of $1.3224M per annum.
Victorian Government F-Factor scheme	Accept AER's incentive rate and set targets on the basis of the average of the last five years.

PROPOSED ADDITIONAL PASS- THROUGH EVENTS	
	Terrorism event, natural disaster event, Insurance cap event, Retailer insolvency event, National Energy customer framework event.

Real price cuts

WE HEARD YOU LOUD AND CLEAR.

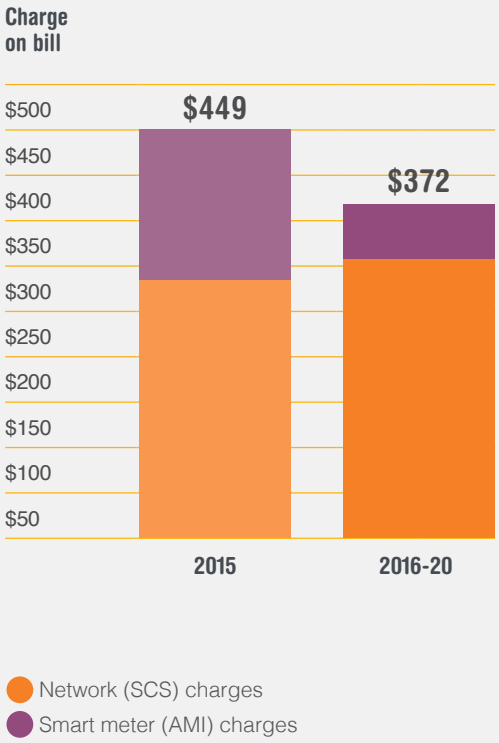
Our customers have been very clear. They are deeply concerned about continuously rising electricity costs.

Over this current regulatory period we've worked hard to optimise our operating efficiencies and performance.

Now we're in a position to deliver an immediate overall price cut in 2016 of approximately $70.

The following graph reflects the immediate overall price decrease our customers will see reflected on their bill in 2016.

TOTAL AVERAGE CUSTOMER BILL



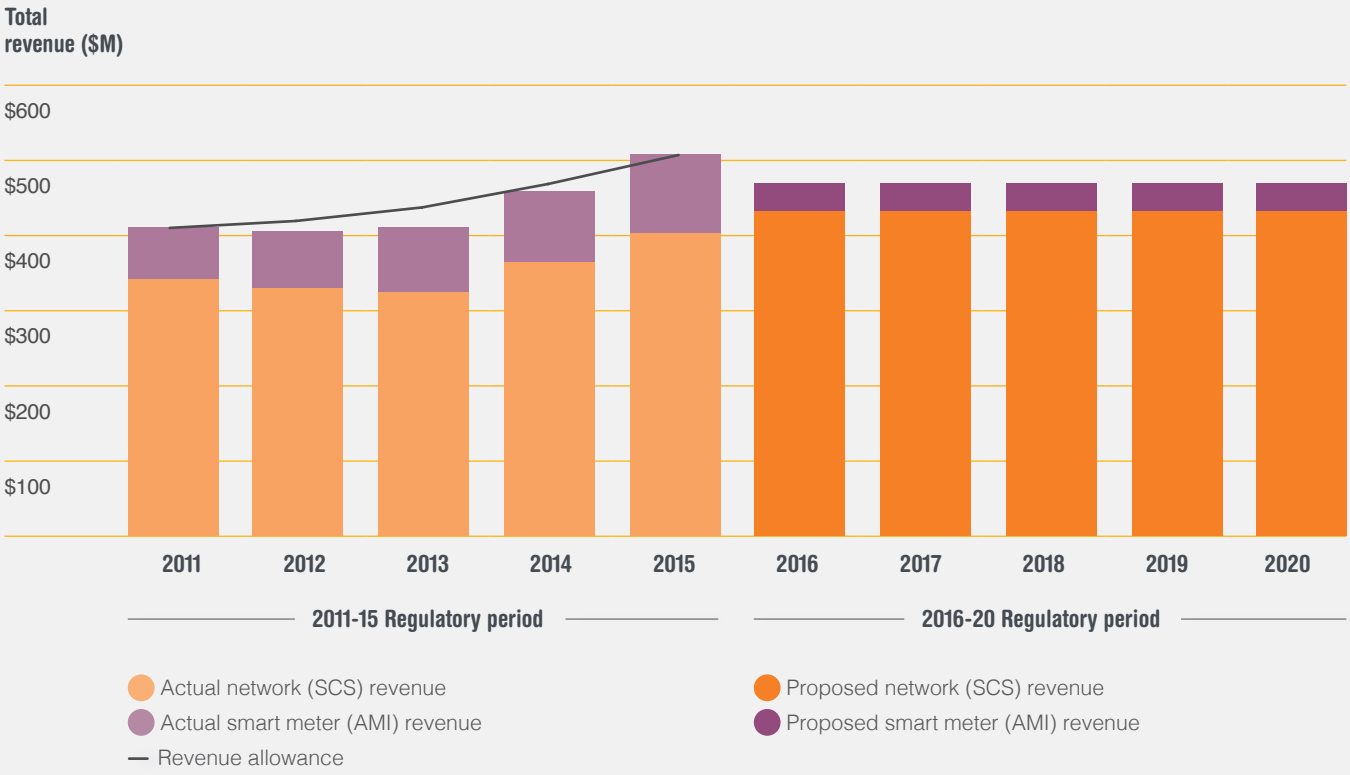
64% ↓

The decrease in smart meter charges for our customer in the 2016-20 period.

WE WILL MAINTAIN OUR PRICE CUT ACROSS THE 2016-20 PERIOD.

The following graph illustrates our total network and smart meter revenues across the current regulatory period and projected revenues for the 2016-20 period.

TOTAL REVENUE




ISUZU

We look forward to empowering our customers with new technology, better information and more choice...
as we continue on our journey to create
The Intelligent Utility.

We distribute electricity to more than 650,000 customers across east and south-east Melbourne and the Mornington Peninsula.

To provide your feedback on our services, learn about our current projects and initiatives and help shape our energy future, visit:

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