

# United Energy 2013 Revised AMI Charges Application



31 August 2012

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## 1. Executive summary

The AMI Cost Recovery Order in Council (CROIC) requires United Energy (UE) to provide a revised charges application to the AER for 2013 by 31 August 2012.

The philosophy adopted by UE is to develop charges that are simple and comprehensible, with a price path designed to manage customer impacts effectively.

United Energy's proposed charges are in line with the Revised Approved Budget and the CROIC<sup>1</sup> adjusted for inflation.

A summary of the charges proposed is as follows.

**Table 1.1: Proposed 2013 Charges**

Nominal \$/Meter	2013 approved charges	Proposed 2013 charges
Single phase single element meter	\$123.30	\$124.45
Single phase single element meter with a contactor <sup>2</sup>	\$125.84	\$124.45
Three phase direct connected meter	\$139.05	\$140.35
Three phase current transformer connected meter	\$148.33	\$149.71

UE has outlined the relevant regulatory requirements which require the revised charges application in section 2. Section 8 contains the charges for the regulated services and Section 9 the meter forecast for 2013.

The AER template with the most recent forecasts is included in Appendix A. The auditor's letter verifying that the costs have been incurred and are within scope is in Appendix B.

## 2. Regulatory requirements

Clause 5G.1 and 5G.2 of the CROIC, require UE to submit a revised charges application with respect to setting charges for 1 January 2013, by 31 August 2012.

The form and content of this charge revision application is determined by the CROIC. In particular, this application complies with the general application requirements in clauses 5G and 5H of the CROIC.

The revised charges submission, in accordance with 5H.1, shall:

- State the period to which it relates;
- Set out the actual total operating and capital costs and revenue for 2011; and
- Contain an updated forecast of total operating and capital costs and revenue for 2012 to 2015.

The AER's determination is to be made in accordance with the regulatory principles in clause 4.1 of the CROIC, the general application requirements in clause 5, particularly 5G, and the process set out in clauses 5G and 5I.

<sup>1</sup> Cost Recovery Order in Council (CROIC) originally gazetted on 28 August 2007 and amended on 12 November 2007, 25 November 2008, 2 April 2009, 21 October 2010 and 22 December 2011

<sup>2</sup> This charge is applicable for single phase, single element meters with a contactor and also single phase, two element with contactor once this metering configuration is available

Clause 5.3 requires UE to identify the documents that the company is relying on in making this revised charges application.

In addition to the above, Clause 5.5(b) also requires a forecast of the metering installations that the distributor proposes to install for each year of the period covered by the application.

Clauses 5H.2 and 5I.3 require that actual costs for 2011 are audited to ensure that they have been incurred and are within scope.

## 3. Period over which charges apply

Clause 5H.1(a) requires the revised charges application to state the period to which it relates. This application is for the pricing period 1 January 2013 through to 31 December 2013.

## 4. Actual Operating and Capital Expenditure, and Revenue

In accordance with clause 5H.1 (b), UE has provided the actual 2011 operating expenditure, capital expenditure and revenue in Table 4.1.

The numbers below reflect the actual costs and revenue arrangements from the initial budget period and the arrangements under CROIC clause 4.1 (o) and 4.1 (p).

**Table 4.1 Actual Operating and Capital Expenditure and Revenue for 2011**

Description	2011 actual \$m-mod
Gross Capital Expenditure	\$69.6
Operating Expenditure	\$27.4
Revenue	\$61.3

## 5. Forecast Operating and Capital Expenditure, and Revenue

In accordance with clause 5H.1 (c), UE has reviewed its forecast operating and capital expenditure and revenue for the remaining years in the subsequent budget period, these are provided in the AER template.

The numbers provided in the AER template are the best available numbers at this time based on current circumstances. The implications of a national smart metering framework and metering churn are not included in the forecasts.

## 6. Information relied on

Clause 5.3 of the CROIC requires UE to identify the documents which the company relies on in making this charges application. They include:

- This application;
- Appendix A – AER template;



- Appendix B – Ernst & Young review of 2011 actual Operational and Capital Expenditure; and
- All other information provided to the AER by UE with its previous budget and charges applications.

## 7. Audit requirements

Under the CROIC, actual costs relating to 2011 must be audited. The actual expenditure is to be derived from UE's Regulatory Accounting Statements and must be allowed except for any part the AER can establish is not attributable to the provision, installation, maintenance and operation of advanced metering infrastructure and associated services and systems.

UE engaged Ernst & Young to audit the 2011 Regulatory Accounts including the costs attributable to AMI services. Ernst & Young concluded that:

- The actual expenditure incurred is for activities within scope; and
- The actual expenditure incurred has been incurred in the amount claimed.

A copy of the audit letter for the purposes of this revised charges application for 2011 expenditure is included in Appendix B.

In addition to the statement made above in relation to expenditure, Ernst & Young has concluded that the revenue attributed to AMI services is a correct account of revenue attributed for AMI services for the 2011 calendar year. This sign off was included as part of the 2011 regulatory accounting audit.

In accordance with clause 5I.2, UE can confirm that actual expenditure for 2011 satisfies the necessary conditions. Details are provided in Appendix A and B of this application.

## 8. Charges for Regulated Services

This section sets out UE's proposed charges for 2013 and describes how those charges comply with the AER's pricing principles.

### 8.1. Proposed charges

The table below compares the approved 2013 charge with proposed charges.

**Table 8.1 Proposed 2013 Charges**

Nominal \$/Meter	2013 approved charges	Proposed 2013 charges
Single phase single element meter	\$123.30	\$124.45
Single phase single element meter with a contactor <sup>3</sup>	\$125.84	\$124.45
Three phase direct connected meter	\$139.05	\$140.35
Three phase current transformer connected meter	\$148.33	\$149.71

<sup>3</sup> This charge is applicable for single phase single element meters with a contactor and also two element with contactor once this metering configuration is available

The difference between the approved and proposed charges for 2013 is attributed to the application of actual inflation rather than forecast inflation.

## 8.2. Approach to setting charges

In determining the charges, UE has taken the building block revenue requirements over the initial and subsequent AMI budget period. UE has:

- Allocated costs to service category (e.g. by meter type); and
- Divided the allocated costs by service category by forecast customer numbers in each service category.

Consistent with CROIC clause 4.1(p), UE has opted to set its charges based on its revenue requirement over the initial and subsequent AMI budget periods. UE has previously noted that this approach will result in it under-recovering its annual revenue requirements for 2009, 2010, 2011 and 2012, and over the initial AMI budget, with an expectation that UE will recover the shortfall in the subsequent AMI budget period.

UE believes that the proposed price path for its AMI charges is simple and achieves an outcome that balances customers' interests of minimal price volatility with UE's own interests in achieving cash flow certainty to match the significant ramp up in required investment to meet the Regulated Services obligations.

There is no change to the current pricing structure and therefore the pricing structure meets the pricing principles established in the CROIC and those established by the AER. The AER approved a revised budget for UE in November 2011. This revised budget included the capability to provide 2 element interval meters where dedicated load circuits were active and being separately metered. UE has previously had a charge for single phase, single element with contactor metering. These charges will apply for any single phase metering with a contactor whether there is one or two elements in the metering configuration. This approach continues to provide a balanced outcome for customers.

## 9. Forecast meter numbers

In accordance with CROIC clause 4.1(l), UE has reviewed its forecast meter numbers to be consistent with the latest forecasts. Table 9.1 below provides the meter numbers used in the approved budget process. On review of these numbers the forecast remains unchanged from that submitted earlier.

**Table 9.1: Forecast total meter numbers for 2013**

Meter Type	Total Meter Numbers
Single phase single element	436,478
Single Phase Off Peak	132,906
Three phase direct connected meter	86,766
Three phase current transformer connected meter	3,096
<b>Total</b>	<b>659,246</b>

In accordance with CROIC 5.5 (b) the forecast of the number of metering installations that the distributor proposes to install for each year of the period is shown in Table 9.2. UE is continuing to analyse metering installations forecasts and the implications of forecasting in 2014 once the derogation lapses.

**Table 9.2: Number of Meter Installs**

Installation Profile	2011	2012	2013	2014	2015
Annual Installations	128,184	129,637	312,397	5,551	5,328

## 10. Contact details

If you have any queries please contact:

Verity Watson  
Manager Regulatory Strategy  
Ph: 03 8846 9856  
Email: [Verity.Watson@ue.com.au](mailto:Verity.Watson@ue.com.au)





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## 11. APPENDICES

### APPENDIX A: AER Template

See attached model



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**APPENDIX B: Auditors Report**

## **Independent auditor's report to the members of United Energy Distribution Pty Ltd**

We have audited the attached Advanced Metering Infrastructure Order In Council 2008 costs of United Energy Distribution Pty Ltd ("UED") for the year ended 31 December 2011 specified in the spreadsheet entitled UED Data Inputs template 2011-2015 ("the Cost Schedule").

### **Directors' Responsibility for the Cost Schedule**

The directors of the company are responsible for the preparation of the Cost Schedule and have determined that the basis of preparation is appropriate to meet the requirements of the Advanced Metering Infrastructure Order In Council 2008 dated 25 November 2008 and the needs of the members. The directors are also responsible for such controls as they determine are necessary to enable the preparation of the Cost Schedule that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Cost Schedule based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the Cost Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Cost Schedule. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Cost Schedule, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation of the Cost Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Cost Schedule.

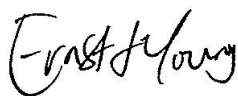
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Independence**

In conducting our audit we have complied with the independence requirements of the Australian professional accounting bodies.

### **Opinion**

In our opinion the Cost Schedule is prepared, in all material respects, in accordance with paragraph 5H.2 of the Advanced Metering Infrastructure Order In Council 2008 dated 25 November 2008 guidelines, the expenditures incurred by UED on the Advanced Metering Infrastructure project for the year ended 31 December 2011.



Ernst & Young  
Melbourne  
28 August 2012