AMI Charges Application for 2012 - 2015

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1 Executive summary

United Energy Distribution (UED) is committed to implementing the Victorian Government's Advanced Meter Infrastructure (AMI) policy.

As an integral part of its roll-out UED is committed to delivering customer benefits that are within distributor scope to our customers as quickly and efficiently as possible. This is evidenced by the fact that since 1 January 2011, UED customers with smart meters have seen the following price drops on these distributor services:

Service	New Price	2010 Price	Comments
Special Meter Read	$1.50	$32.90	Previously performed as a site visit
Connection and disconnection	$6.62	$104.25	Previously performed as a site visit

We look forward to participating in the Victorian Government's cost benefit review of the program and to understanding the terms of reference and timeframes of the review. Our participation in the review will focus on achieving the best outcome we can for our customers with regards to meter pricing and benefits delivery.

UED supports the policy decision to replace existing accumulation meters at each customer site with a new AMI meter (<160MWh). The average age of the existing meters is more than 20 years. Bringing forward the early replacement of these meters with smart meter technology will deliver tangible benefits to our customers. For example, the process of checking the wiring at the meter board during smart meter installation has identified potentially life-threatening safety issues. Once installed, the new technology will provide better information to distributors and customers. As a result, customers will receive better fault detection and response times from distributors, cheaper service delivery (as outlined in the table above), while also having an opportunity to use Victoria's energy resources more efficiently. UED believes that the benefits from the AMI roll-out will ultimately outweigh the costs.

UED has established a joint program with Jemena Electricity Networks (JEN) under the management of Jemena Asset Management (JAM). The joint program involves cost sharing arrangements that deliver benefits to UED and our customers in the form of lower prices and risks. UED could not achieve these benefits under a stand-alone program.

The joint program has achieved all key project milestones to date. In particular, UED and JEN are the first, and presently the only distribution businesses in Victoria, operating AMI meters in the market as remotely read interval meters with daily delivery to market of the meter data. By 7 November 2010, 8 weeks ahead of schedule, UED had successfully installed 10% of AMI meters in its distribution area. UED regards these achievements as practical confirmation that the joint program is delivering tangible benefits to UED's customers.

Arrangements for recovering the costs of the AMI project are prescribed by the Victorian Government in the AMI Cost Recovery Order in Council (the CROIC). The CROIC requires UED to submit budget and pricing information to the Australian Energy Regulator (AER).

This submission is UED's pricing application and should be read in conjunction with UED's budget application.

UED is confident that this pricing application and the accompanying budget application comply fully with the requirements of the CROIC.

2 Introduction

2.1 Background and introduction

This paper should be read in conjunction with UED's AMI Budget Application 2012-2015, 28 February 2011, which provides more context and detail on:

- UED's commitment to delivering the Victorian Government's Advanced Meter Infrastructure (AMI) policy given the age of existing meters and the benefits of upgrading to "smart meters";
- UED's joint program approach and the synergies being leveraged from this approach;
- UED's industry leading progress with both its roll-out and number of in market meters;
- The current and potential customer benefits of the program including:
    - faster and more reliable meter reading
    - increased customer information when teamed with an in-home display or portal;
    - fast and more convenient connection and reconnection;
    - automatic fault detection and faster response; and
    - the prospect of more flexible electricity tariffs or pricing structures to reward customers for better managing Victoria's resources
- The unintended benefit of the roll-out providing a unique opportunity to inspect domestic wiring at the meter board, identifying potentially life-threatening safety issues for customers.

UED is confident this pricing application fully complies with the requirements of the CROIC.

2.2 Summary of proposed charges 2012-2015

In October 2009 the Australian Energy Regulator (AER), made a determination that approved Advanced Metering Infrastructure (AMI) prices for 2010 and 2011. In January the AER published an amendment to the final decision.

This charges application details UED's proposed charges for 2012, 2013, 2014 and 2015 for costs associated with Regulated Services, as allowed under the AMI Cost Recovery Order in Council (CROIC)[1].

The CROIC prescribes the framework under which distributors will be able to recover the cost of providing metering services to customers. The CROIC explains that the regulatory model is a cost pass through arrangement whereby the charges for metering services are, in general terms, set as follows:

(a) Charges for 2009 are set by reference to the metering charges already set by the ESC for that year.

[1] Order under Section 15A and Section 46D of the Electricity Industry Act 2000 made on 28 August 2007, as amended by the Advanced Metering Infrastructure Order in Council 2008 made on 25 November 2008.

(b) In 2009, initial charges are set for 2010 and 2011, based on an approved budget for 2009 to 2011 and actual expenditure and revenues for 2006 to 2008.

(c) In 2010 the initial charges for 2011 will be revised to take account of actual expenditure and revenues known for 2009 and revised forecasts for 2010 to 2011.

(d) This process is repeated in 2011 by setting the charges to apply for the years 2012 to 2015 based on actual expenditure and revenues known to 2010, revised forecasts for 2011 and an approved budget for 2012 to 2015.

(e) In 2012 the initial charges for 2013 will be revised to take account of actual expenditure and revenues known to 2011 and revised forecasts for the period to 2015. This process of revising charges is then repeated for 2014 and 2015 to take account of actual expenditure and revenues for 2012 and 2013 as they become known. The same process applies in years 2016 and 2017 to take account of actual expenditure and revenues for 2014 and 2015 as they become known.

(f) The charges will be designed so that the net present value of building block costs incurred to date must always equal the net present value of revenues recovered to date unless a distributor decides (and the Commission agrees) for a particular year that it will not recover its full building block costs in which case unrecovered expenditure will be carried over to a later year. In setting charges, actual expenditure is to be used along with actual revenue or if actual figures are not available then a distributor's most recent forecasts are used.

This charges application relates to step (d) in the above description. The charges proposed in this application are consistent with the CROIC, and with pricing principles established by the AER in its Framework and Approach Paper[2]. The philosophy adopted by UED is to develop charges that are simple and comprehensible, and have been designed to recover the full costs of the roll-out attributable to the 2012-2015 period (subject to minor reconciliation differences).

A summary of the proposed charges is as follows.

[2] Framework and approach paper – Advanced metering infrastructure review 2009-11, Final Decisions, January 2009.

Table 1.1: Proposed Regulated Services charges for 2012 and 2015 – Real $ 2011

Meter Type	2011	2012	2013	2014	2015
Single phase single element	92.12	104.71	119.03	135.30	153.80
Single phase single element meter with contactor	94.02	106.87	121.49	138.09	156.97
Three phase direct connected meter	103.89	118.09	134.24	152.59	173.45
Three phase current transformer connected meter	110.82	125.97	143.19	162.77	185.02

It is noteworthy that UED expects there to be price reductions from 2016 onwards. This reflects the decline in the building block costs.

The increase in charges from the current level reflects:

- The increase in the number of meters to be installed in the 2012-2015 period; and
- The recovery of costs for the 2009-2011 not already recovered.

The proposed prices have been based on the assumptions contained in the budget application and applying the standard building block approach, using the model provided by the AER.

It should be noted that the price of the meter includes:

- The cost of the meter which is sourced overseas;
- The installation cost of the meter;
- A sophisticated mesh communication network that allows information to be sent to the IT systems;
- An IT system that is required to send half hourly metering data to market by 6.00am the following day;
- IT storage of this increased data volume;
- Program management costs for program establishment and ongoing management; and
- The cost of customer services and billing in relation to metering services.

2.3 Structure of this report

The remainder of this report is structured as follows:

Chapter	Title	Details
3	Regulatory requirements	This chapter outlines the regulatory obligations requiring this charges application to be submitted to the AER by 28th of February 2011. It also describes how this charges application relates to the Budget Application dated 27 February 2011.
4	Revenue requirements	This chapter summarises UED's revenue requirement to be used in determining the initial charges for 2010 and 2011.
5	Revenue true up 2009-2011	This chapter provides details on UED's 2009 to 2011 actual revenue compared to the allowed revenue that could have been recovered during this period.
6	Revenue required for capital investment	This chapter outlines the capital components that contribute to UED's overall revenue requirements. It sets outs UED's forecast capital expenditure, roll forward of its meter asset base, and its required return on and of capital.
7	Revenue required for operating expenditure	This chapter outlines UED's forecast operating expenditure that contributes to the overall revenue requirements.
8	Proposed charges	This chapter sets out UED's proposed charges, and describes how the charges comply with the AER's pricing principles.
Appendices		
A	AER information template (commercial in confidence)	
B	Audit report	

3 Regulatory requirements

3.1 Overview of regulatory obligations

Under clause 5A.1(c) of the CROIC, by 28 February 2011, UED must submit a charges application with respect to setting charges for each of the years commencing 1 January 2012, 2013, 2014 and 2015.

The form and content of this charges application is determined by the CROIC, guidance provided by the AER in its Framework and Approach Paper (the AER Approach Paper), and the information template provided by the AER. In particular, this application complies with the general application requirements in clauses 5 and 5A of the CROIC, and the process and content requirements for the 2012-15 Charges Determination set out in clause 5E.

Actual revenue compared to allowed cost recovery. The reconciling amount is included in the charges for 2012-2015.

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 and 5A, and the process set out in clause 5E.

Clause 4 of the CROIC requires the AER to use the building block approach to set charges for AMI metering services. Clause 4(o) of the CROIC explains the building block approach in the following terms:

> "The charges of a distributor for every year in the period from 1 January 2010 to the End Date, shall be designed so that, for the period from the Start Date up to and including the year for which charges are being determined, the net present value of the total costs incurred by the distributor for Regulated Services is equal to the net present value of the total revenue earned by the distributor from Regulated Services in that same period where:
>
> (i) costs in any year are the building block costs determined in accordance with clauses 4.1(b) to (j); and
>
> (ii) revenue in any year is determined in accordance with clauses 4.1(k) to (m)."

The building block costs referred to above include the following components:

- a return on capital;
- depreciation;
- maintenance and operating expenditure;
- a benchmark allowance for corporate income tax.

The building block methodology has become the standard approach for regulating distribution networks in Australia. Applying this building block methodology to AMI metering services, as required by the CROIC, produces an uneven price path.

There are three principal reasons for this uneven price path:

- The rapid roll-out of the AMI meters leads to a growing asset base and a ramping up of charges over a relatively short period;
- The higher asset base leads to higher financing costs in the initial period, which later reduce as the asset base depreciates over time; and

- The telecommunications and information technology systems have relatively short lives of seven years, which impose further costs at the start of the roll-out period.

The price profile for AMI metering services contrasts with the stable price path that the building block methodology ordinarily produces for distribution networks. This is because the distribution network is characterized by longer asset lives, more gradual asset replacement programs and a stable regulatory asset base. While the price path for AMI metering services is not ideal, it is important to note the following points:

- The unevenness in the charges for AMI metering services needs to be considered in the broader context of customers' total electricity costs;
- The CROIC requires that distributors only earn sufficient revenue to cover the costs of providing AMI services.

In summary, the application of the building block methodology mandated in the CROIC produces an uneven price path over time. However, the building block method also ensures that customers and UED are not disadvantaged from this unevenness in the charges. On this basis, UED considers that its proposed charges are reasonable and in accordance with the requirements of the CROIC.

3.2 Relationship with Budget Application

This charges application describes the proposed charges for 2012-2015, based on:

- the historical revenue and costs set out in this application,
- forecast and estimated costs set out in the budget application submitted to the AER on 28 February 2011 (Budget Application), and
- forecast and estimated quantities set out in this application.

In accordance with clause 5.E of the CROIC, this application relies on information previously submitted to the AER in the Budget Application. Relevant section references are provided within the text of this application.

Importantly, this application relies on details of the competitive tender process described in the Budget Application.

This charges application is based on the Budget Application as submitted. CROIC clause 5E.3(a) requires that in determining the 2012 to 2015 building blocks costs, the operating expenditure and capital expenditure must be derived from the Approved Budget. The Approved Budget will include, if relevant, the AER's determination of any revision to the Budget Application.

3.3 Summary of Budget Application Total Expenditure

The forecast capital and operating expenditure over the initial AMI budget period and as included in UED's Budget Application is shown in Table 2.1. The forecast and estimated Total Expenditure is included in UED's building block costs (see chapter 3). A comparison of UED's expenditure forecast over the entire period compared to the company's original forecast prepared in June 2008 is provided below.

Table 2 – Submitted Budget for this AMI budget period

Year	$M – Real 2011
2012	134.2
2013	45.0
2014	32.4
2015	32.2
Total	**243.8**

4 Revenue requirements

Clause 4.1(b) of the CROIC requires the AER to use a building block approach in determining the Regulated Services costs to be recovered by UED over the AMI budget period.

This chapter summarises the building block revenue requirements for UED. Chapters 4 to 6 set out the detailed components of revenue requirements resulting from historical information, capital investment and operating expenditure respectively.

4.1 Summary revenue requirement

UED's summary revenue requirement over the initial AMI budget period as per the AER's template (see Appendix A) is shown in Table 3.1.

Table 3.1: Notional revenue requirement 2012 – 2015- Real $M 2011

Building block component	2012	2013	2014	2015	Total
Revenue not recovered during initial budget period	29.5	0.0	0.0	0.0	29.5
Return on assets	16.3	17.8	15.3	13.5	62.9
Regulatory depreciation	38.9	44.1	39.2	37.1	159.2
Operating and maintenance expenditure	28.4	23.7	22.0	22.2	96.3
Tax wedge	0.0	0.0	0.0	0.0	0.0
Total revenue requirement	**113.1**	**85.6**	**76.5**	**72.8**	**347.9**

4.2 Approach to determining notional revenue

The CROIC requires the AER to calculate the opening value for the metering asset base as at 1 January 2012, and then apply the building block approach to determine the revenue requirement over the AMI budget period.[3] The building block revenue requirement is to include an allowance for maintenance and operating expenditure and capital expenditure included in the Approved Budget, a return on capital, depreciation, a benchmark allowance for corporate income tax and other costs relating to historical matters.

UED has populated the AER template (see Appendix A) for the allowed building block inputs. The model then calculates the revenue requirement over the AMI budget period as shown in Table 3.1 above.

[3] See clause 5E.2 of the CROIC.

5 Revenue true up 2009 - 2011

The CROIC provides for recovery or return of actual revenue received when compared to the allowed revenue building block allowance for the 2009 – 2011 period.

This chapter sets out the actual costs incurred during the 2009 - 2011 period compared to the actual revenue received, extracted from UED's Regulatory Accounting Statements for 2009 and 2010 and forecast for 2011. In UED's case the predominate reason for the difference (under recovery) arises from actual expenditure during 2009-2011 being greater than the allowed budget, but still within the 120 per cent tolerances set in the CROIC.

5.1 Summary of revenue received versus benchmark allowances.

Table 4.1 summarises the historical data to be included in the building block revenue requirements for the initial AMI budget period.

Table 4.1: 2009 to 2011 data to be included in revenue requirement – Real $M - 2011

Description	2009	2010	2011 (forecast)	Total
Actual Revenue	19.9	46.9	60.8	127.6
Allowed Revenue	35.7	48.9	72.5	157.1
Variance	(15.8)	(2.0)	(11.7)	29.5

Note that the detailed calculations of allowed revenue is contained in appendix A.

This amount is included in the building costs in table 3.1 above.

5.2 Independent verification of attribution of costs incurred

UED engaged Ernst & Young to perform an agreed upon procedures review of the costs for 2010 (noting that they have previously audited all expenditures in the 2006 - 2008 period..Their report is attached to this submission and have concluded that costs:

- In our opinion, the Cost Schedule presents fairly, 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 expenditure incurred by UED on the Advanced Metering Infrastructure project for the year ended 31 December 2010.

The independent advice provided by Ernst & Young addresses the AER's requirements of an expert report as set out in clause 5.5.1.2 of the AER Approach Paper.

6 Revenue required for capital investment

This chapter sets out the building block components for UED's revenue required for capital investment, being an allowance for a return on assets, and an allowance for regulatory depreciation. Values for these allowances are determined by taking the following steps:

- establishing the opening value of the metering asset base (MAB) at the start of the initial AMI budget period (1 January 2009)
- calculating the annual value of the MAB over the initial AMI budget period by rolling the opening value forward to the end of this period (31 December 2011)
- calculating the appropriate rate of return on assets, and multiplying the annual value of the MAB by this rate (to give the allowance for a return on assets)
- calculating the allowance for regulatory depreciation by applying the depreciation rates specified in the CROIC.

6.1 Summary revenue required for capital investment

Table 5.1 shows the revenue required for capital investment over the initial AMI budget period.

Table 5.1: Summary revenue required for capital investment over initial AMI budget period – Real $M 2011

Category of capital investment	2012	2013	2014	2015	Total
Return on assets	16.3	17.8	15.3	13.5	62.9
Depreciation	38.9	44.1	39.2	37.1	159.2
Total revenue required for capital investment	**55.2**	**61.9**	**54.5**	**50.6**	**222.2**

6.2 Forecast capital expenditure per Budget Application

The forecast capital expenditure over the initial AMI budget period and as included in UED's Budget Application is shown in Table 5.2.

Table 5.2: Forecast capital expenditure over initial AMI budget period - Real $M 2011

Total forecast capital expenditure	2012	2013	2014	2015
Real $ 2011	105.9	21.4	10.4	10.1

Source: UED budget application dated 28 February 2011.

6.3 Metering asset base (asset roll forward)

Table 5.4 sets out the roll forward of the MAB in accordance with the approach set out in the CROIC, clause 5E.2

Table 5.3: MAB over initial AMI budget period – Real $M 2011

MAB roll forward	2012	2013	2014	2015
Opening MAB	209.0	275.5	252.3	223.1
Add: Forecast capital expenditure[4]	105.8	21.3	10.4	10.1
Less: Regulatory depreciation	39.4	44.5	39.6	37.6
Less: Disposals	0.0	0.0	0.0	0.0
Closing MAB	**275.5**	**252.3**	**223.1**	**195.5**

6.4 Return on investment

In determining the return on investment, CROIC specifies that different WACC parameters apply during the 2012-2015 period. For 2012 and 2013 the WACC to be applied is in accordance with clause 4.1(b) and (i). For 2014 and 2015 the WACC must be calculated in accordance with 4.1 (j).

The WACC parameters and values used by UED in determining its revenue requirement for the 2012-2015 AMI budget period are shown in Table 5.4.

Table 5.4: WACC parameters and values

WACC parameter	2012 & 2013	2014 & 2015
Risk free rate	4.63%	4.63%
Debt risk premium (inclusive of 12.5% debt raising costs)	4.125%	4.125%
Equity premium	6.0%	6.5%
Equity beta	1.0	0.8%
Gearing	60%	60%
Forecast inflation	2.56%	2.56%
Vanilla after tax real	6.77%	6.46%
Vanilla after tax nominal	9.51%	9.19%

The CROIC sets the equity premium and beta, gearing and inflation as per the Current Price Determination. The basis for determining the proposed values for the risk free rate and debt risk premium are discussed below.

[4] Net of capital contributions.

6.4.1 Statement of regulatory intent (SoRI)

In its final SoRI, the AER has set out the methodology to determine the risk free rate and debt risk premium parameters that UED must apply in this charges application. These are described in sections 6.4.2 and 6.4.3 below.

6.4.2 Risk free rate

UED concurs that the risk free rate applied by the AER in its template is consistent with the SoRI and reflects the measurement period consistent with the CROIC. For consistency UED has chosen to adopt the same risk free rate as the current period. UED proposes to set a measurement period to calculate the risk free rate under five separate correspondences (for approval by the AER).

6.4.3 Debt risk premium

The debt risk premium for 2012 and 2013 has already been established in accordance with the CROIC. For the purpose of 2014 and 2015 UED has applied a rate of 4.125% which is consistent with the current rate.

Much like the risk free rate, UED will write to the AER during 2013 to set a measurement period.

UED's preferred calculation of the debt risk premium is in accordance with the submission the company made as part of it's Pricing Proposals during 2010 – notably the application of Bloombery fair yield estimates UED relies on the submissions made during that process for the purpose of this application.

6.4.4 Return on assets

Applying the WACC of 6.77% and 6.46% to the MAB roll forward over the relevant period set out in Table 5.4 results in the return on assets allowance shown in Table 5.5.

Table 5.5: Return on MAB allowance over initial AMI budget period – Real $M 2011

Real 2011 - $m	2012	2013	2014	2015
Return on assets allowance	16.3	17.8	15.3	13.5

6.5 Depreciation allowance

Table 5.7 shows the depreciation allowance for the 2012-2015 AMI budget period using the depreciation rates set out in CROIC clause 4.1(g) applied to the MAB roll forward over the initial AMI budget period set out in Table 5.4

Table 5.7: Depreciation allowance over initial AMI budget period – Real $M 2011

Real 2011 - $m	2012	2013	2014	2015
Total real depreciation	38.9	44.1	39.2	37.1

7 Revenue required for operating expenditure

This chapter sets out the building block components for UED's revenue required for operating expenditure.

7.1 Forecast operating expenditure per Budget Application

The forecast operating expenditure over the initial AMI budget period and as included in UED's Budget Application is shown in Table 6.2.

Table 6.2: Forecast operating expenditure over initial AMI budget period – Real $M 2011

Total forecast and estimated operating expenditure $m	2012	2013	2014	2015
Operating Expenditure	28.4	23.7	22.0	22.2

Source: Real $ per UED budget application dated 28 February 2011.

8 Charges for Regulated Services

Clause 5A.1(c) of the CROIC requires charges to be set for 2012-2015 in this charges application. In its Approach Paper, the AER stipulated pricing principles to be used when setting the charges.

This chapter sets out UED's proposed charges for 2012 to 2015 and describes how those charges comply with the AER's pricing principles.

8.1 Proposed charges

Table 7.1: Proposed Regulated Services charges for 2012 and 2015 – Real $ 2011

Real 2011	2012	2013	2014	2015
Single phase single element	104.71	119.03	135.30	153.80
Single phase single element meter with contactor	106.87	121.49	138.09	156.97
Three phase direct connected meter	118.09	134.24	152.59	173.45
Three phase current transformer connected meter	125.97	143.19	162.77	185.02

8.2 Approach to setting charges

When determining charges, the CROIC states that:

- Charges may differ across defined service categories but not between meter types (clause 4.1(n)).
- Charges be set to recover the net present value of building block costs incurred to date must equal the net present value of revenue incurred to date (clause 4.1(o)).
- At the distributor's discretion, charges may be set lower such that the net present value of total costs is not recovered in any one year (clause 4.1(p)).

In determining the charges, UED has taken the building block revenue requirements over the AMI budget period and:

- allocated costs to service category (e.g. by meter type)
- divided the allocated costs by service category by forecast customer numbers in each service category
- determined the level of charges that would apply if UED set to recover the net present value of building block costs incurred to date for 2012 to 2015 (consistent with CROIC clause 4.1(o) and set out in the AER template)

Consistent with CROIC clause 4.1(p), UED has opted to set its charges based on its revenue requirement over AMI budget periods.

Table 7.2 shows the revenue requirements and the expected revenue recovery through charges over the initial AMI budget period.

Table 7.2: Revenue requirement and expected recovery through charges over initial AMI budget period – Real $M 2011

Nominal $m	2012	2013	2014	2015
Revenue requirement	110.0	85.6	76.5	72.8
Target revenue recovery through charges	61.6	68.4	76.0	84.4
NPV over initial AMI budget period	0.0			

8.3 Forecast customer numbers

Table 7.4 sets out UED's forecast customer numbers over the initial AMI budget period that have been used in calculating charges for 2012 and 2015.

Table 7.4: Forecast customer numbers

Meter Type	2012	2013	2014	2015
Single phase single element	432,157	436,478	440,843	445,252
Single phase single element meter with contactor	131,590	132,906	134,235	135,577
Three phase direct connected meter	85,907	86,766	87,633	88,510
Three phase Current transformer connected meter	3,065	3,096	3,127	3,158

8.4 Compliance with AER pricing principles

In section 4.5.2 of its Approach Paper, the AER set out the following pricing principles that the Victorian distribution businesses need to comply with in proposing their charges:

1. Cost of services provision - a distributor's charges and terms and conditions for a prescribed metering service (this has been read to refer to Regulated Services) must be based on the costs incurred by the distributor in providing the prescribed metering service, given the customer classes permitted by the revised Order.
2. Cost allocation - in respect of the costs incurred by a distributor in providing a prescribed metering service:
   - those costs must not include costs in respect of which the distributor is remunerated under the distributor's distribution tariff or excluded service charges or charges for metering services to unmetered supply points, and
   - those costs must only include an appropriate allocation of any shared or common costs incurred by the distributor in providing the prescribed metering

service and in providing any other goods or services, whether in the conduct of a distributor's business as a distributor or any other business

3. Simplicity - charges and terms and conditions for prescribed metering services should be simple and easily comprehensible.

UED has achieved the AER's pricing principles as follows:

1. Cost of services provision:

UED has Regulated Services charges consistent with categories provided for in CROIC clause 4.1(n). To ensure alignment with AMI cost drivers, UED has incorporated the following principles into its 2012-2015 tariffs:

- Current metering data service charges have been consolidated into a single charge given AMI removes the distinction between monthly and quarterly read meters.
- The primary cost driver of meter provision charges is the capital cost of the meter. UED has developed a cost reflective 2012-2015 metering provision charge.
- Re-balanced meter data services and meter provision charges have been combined into one metering charge. This charge maintains differentiation by meter type due to the relative cost differential of procuring different types of meters.

2. Cost allocation:

- UED has only allocated Regulated Services costs in its Regulated Services metering charges; that is, no costs have been included for services that it receives revenue for under its distribution tariffs, excluded service charges or charges for metering services to unmetered supply points.
- UED has not included any shared costs in its building block revenue.

3. Simplicity:

UED has developed its prescribed Regulated Services to be as simple as possible. It has aimed to reduce the number of charges and minimise the differential between charges, provided that the other AER pricing principles are met. In particular:

- UED has consolidated the current metering data services charge and meter provision charge into one charge.
- UED has set its Regulated Services charges based on meter type (consistent with the CROIC) regardless of the customer type and usage.
- In order to not discriminate between accumulation and interval meters, UED has adjusted its charges to be on a per NMI basis rather than a per meter basis. Currently where a NMI has two single phase meters (one Peak and the other Off Peak) the NMI receives one off peak Meter Provision charge and two Meter Data charges.

APPENDIX A: AER Template (Commercial in Confidence)

APPENDIX B: Verification of costs for 2010