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Dear Mr Pattas

RE: Request for new Framework and Approach Paper for the 2016 to 2020 regulatory control period

1. Introduction and context

United Energy (**UE**) requests the Australian Energy Regulator (**AER**) to issue a new or amended Framework and Approach Paper (**F&A paper**) for UE's upcoming 2016 to 2020 regulatory control period in accordance with clause 6.8.1(c)(1) and 11.60.3(c) of the National Electricity Rules (**Rules**). The AER's current F&A paper for UE, entitled "Framework and approach paper for Victorian electricity distribution regulation", was issued on 29 May 2009 and provided guidance for UE in preparing its 2011 to 2015 Regulatory Proposal. However, since then a number of key developments have occurred within the legislative and regulatory framework. UE considers that the AER should address these developments, discussed in section 2 below, in its 2016 to 2020 F&A paper for UE.

UE considers that the F&A paper is a critical document in the determination process, as it is intended to provide information, and a basis for consultation, for UE on the AER's "likely approach" to matters set out in clauses 6.8.1(b) and 6.8.1(g) of the Rules. Certainty on these matters is important for UE in developing, and consulting with its customers and other stakeholders on, its Regulatory Proposal.

2. Reasons for seeking a new or amended F&A paper

UE considers the AER should address the following key developments in developing its 2016 to 2020 F&A paper:

- Extension of the Rules' derogation (clause 9.9B) with respect to advanced metering infrastructure (**AMI**). In accordance with the derogation, AMI services are currently regulated under the AMI Order in Council. In November 2013, the Australian Energy Market Commission finalised its decision to extend the derogation until 31 December 2016 or until a new national framework is in place;
- Publication of the AER's Final "Connection charge guidelines for electricity retail customers" (**Connection Charge Guidelines**) in 2012;

- Amendments to Chapter 6 of the Rules that were introduced in November 2012, including to clause 6.8.1(b) which now increases the number of matters that the AER must address in its F&A paper; and
- Publication of the AER's Final Better Regulation Guidelines in 2013.

In particular, UE considers the AER should set out its approach to, or clarify its position on, the following matters in a new F&A paper for UE:

- The classification of AMI services and the associated control mechanism under Chapter 6 of the Rules after the end of the derogation, as this will be the first time that these services are regulated under the Rules;
- Whether the AER's Connection Charge Guidelines or the Essential Services Commission of Victoria's Electricity Industry Guideline 14 will apply in the next regulatory control period in the absence of any clear direction on if, and when, the National Energy Customer framework rules will apply to UE. UE encourages the AER to work with the Victorian Government to clarify these arrangements. This is important because any changes to the connection framework need to be reflected into the customer contributions methodology and may also require a review of the service classification;
- The manner in which the expenditure incentive guidelines will operate including the:
 - Efficiency Benefit Sharing Scheme; and
 - Capital Expenditure Sharing Scheme.
- The key aspects specific to UE of the other incentive guidelines including the:
 - Service target Performance Incentive Scheme (**STPIS**);
 - Demand Management and Embedded Generation Connection Incentive Scheme (**DMEGCIS**); and
 - Small Scale Incentive Scheme (**SSIS**).
- How the AER will apply its Expenditure Forecast Assessment Guideline to assess UE's 2016 to 2020 expenditure forecasts.

UE is concerned that the AER has:

- Not yet finalised the development of some of these incentive guidelines, including the DMEGCIS and SSIS that will apply to UE in the next regulatory control period; and
- Indicated that it will review the current STPIS once the Australian Energy Market Commission has completed its review of the value of customer reliability¹ and once the AER has completed its Better Regulation program².

UE considers that it is important for the AER to finalise the development of these guidelines as soon as possible to provide UE with the certainty it requires to develop, and consult on, its 2016 to 2020 Regulatory Proposal. UE looks forward to participating in this process.

¹ AER, Preliminary positions paper - framework and approach for SA Power Networks Regulatory control period commencing 1 July 2015, December 2013, page 52

² AER, Submission on AEMC consultation Paper – review of national frameworks for transmission and distribution reliability, 13 August 2013, page 5.

3. Closing

UE considers that given the number of matters that need to be reviewed and addressed, it would be preferable for the AER to develop a new (rather than an amended) F&A paper for UE for the 2016 to 2020 regulatory control period. UE looks forward to the participating in the AER's development of, and consultation on, this paper and requests the AER to set out a timetable for this process.

Please do not hesitate to contact Stephanie McDougall, Price Review Manager, on (03) 8846 9538 or stephanie.mcdougall@ue.com.au if you would like to discuss any of the matters raised in this submission.

Yours sincerely

Andrew Schille
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