

# Application to the Australian Energy Regulator

## AMI Charges Application for 2011

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**UNITED ENERGY**  
***Distribution***

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Final

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## 1 Executive summary

### 1.1 Summary of proposed charges 1 January 2011

In February 2009, United Energy Distribution Ltd (UED) submitted an initial budget application to the Australian Energy Regulator (AER), that detailed the company's costs associated with the provision of Regulated Services. In June 2009 UED also provided the AER with an initial charges application for 2010 and 2011 forecast costs associated with Regulated Services, as allowed under the Advanced Metering Infrastructure (AMI) Cost Recovery Order in Council (CROIC)<sup>1</sup>.

The AER has published approved prices for 2011, based on the documentation referred to above. In accordance with the CROIC this application seeks the AER's approval for UED's proposed prices for 2011. These prices remain unchanged from those already approved by the AER.

The charges proposed in this application are consistent with the CROIC. The philosophy adopted by UED is to develop charges that are simple and comprehensible, with a price path designed to manage customer impacts effectively.

A summary of the charges proposed is as follows.

**Table 1.1: Proposed 2011 Charges**

| Nominal \$/NMI                                   | 2011 approved charges | Proposed 2011 charges |
|--|-----------------------|-----------------------|
| Single phase single element                      | \$92.12               | \$92.12               |
| Single phase single element meter with contactor | \$94.02               | \$94.02               |
| Three phase direct connected meter               | \$103.89              | \$103.89              |
| Three phase current transformer connected meter  | \$110.82              | \$110.82              |

<sup>1</sup> 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.

## 1.2 Structure of this report

This report is structured as follows:

**Table 1.2: Report Structure**

| Chapter    | Title  | Details   |
|------------|--|---|
| 2          | Regulatory requirements  | This chapter outlines the regulatory obligations requiring this charges application to be submitted to the AER. |
| 3          | Charges for regulated services                                   | This chapter summarises the revised prices for 2011.  |
| Appendices |  |   |
| A          | AER information template (Commercial in Confidence)              |   |
| B          | Review of historical AMI costs (Commercial in Confidence)        |   |
| C          | 2009 Regulatory Accounting Statements (Commercial in Confidence) |   |

UED requests that the AER keeps all the appendices confidential for the following reasons:

- Appendix A contains detailed actual cost data that would enable the calculation of unit rate data. UED has not finalised its competitive contracting for the project and availability of unit cost data has the potential to distort market outcomes in a negative way. It is not in the customers' interest to make available data that places pressure on market data that is ultimately passed through to customers;
- Appendix B has been prepared on terms and conditions that do not allow the report being made public; and
- Appendix C contains detailed financial information that is commercial in confidence. This is consistent with the historic provision of regulatory accounting data.

## 2 Regulatory requirements

### 2.1 Overview of regulatory obligations

Under clause 5G.1 and 5G.2 of the CROIC, by 31 August 2010, UED must submit a charges revision application with respect to setting charges for 1 January 2011.

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 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.

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## 2.2 Clause 5.3

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

- This application;
- Appendix A – AER templates;
- Appendix B – Ernst & Young review of actual costs;
- Appendix C – 2009 Regulatory Accounting Statements; and
- All other information previously provided to the AER by UED with its initial budget application and initial charges application

## 2.3 Clause 5H.1

This application is for the pricing period 1 January 2011 through to 31 December 2011.

## 2.4 Clauses 5H.2 and 5I.3

Under the CROIC, historic costs relating to 2009 must be audited. The actual expenditure is to be derived from UED'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.

UED engaged Ernst & Young (approved by the AER) to audit the 2009 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.

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 2009 calendar year. This sign off was included as part of the 2009 regulatory accounting audit.

## 2.5 Clause 5I.2

In accordance with this clause UED can confirm that actual expenditure for 2009 satisfies the necessary conditions. Details are provided in appendix A and C of this application.

### 3 Charges for Regulated Services

This section sets out UED’s proposed charges for 2011 and describes how those charges comply with the AER’s pricing principles.

#### 3.1 Proposed charges

The table below compares the approved 2011 charge with proposed charges.

**Table 3.1: Proposed Regulated Services charges for 2011**

| Nominal \$/meter                                 | Approved | Proposed |
|--|----------|----------|
| Single phase single element                      | \$92.12  | \$92.12  |
| Single phase single element meter with contactor | \$94.02  | \$94.02  |
| Three phase direct connected meter               | \$103.89 | \$103.89 |
| Three phase current transformer connected meter  | \$110.82 | \$110.82 |

#### 3.2 Approach to setting charges

In determining the charges, UED has taken the building block revenue requirements over the initial AMI budget period. UED 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), UED has opted to set its charges based on its revenue requirement over the initial and subsequent AMI budget periods. UED has previously noted that this approach will result in it under-recovering its annual revenue requirements for 2009, 2010 and 2011, and over the initial AMI budget, with an expectation that UED will recover the shortfall in the subsequent AMI budget period.

UED 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 UED’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.

UED has consulted extensively with retailers, end-users and with the Department of Primary Industries regarding the pricing structure. There were a number of alternatives considered such as:

- A combination of fixed and variable;
- Solely variable; and

- Weighted based on benefits received.

Naturally, large users preferred the rate to be fixed, compared to small users who preferred the rate to be variable. UED concluded that any change to the current structure (at this stage) would potentially create an outcome that was not anticipated. Therefore for the sake of consistency UED proposes to maintain the current pricing structure – i.e. fixed charge per meter.

### 3.3 Forecast meter numbers

In accordance with CROIC clause 4.1(l), UED has reviewed its forecast meter numbers to be consistent with the latest forecasts. Table 4.3 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 3.3: Forecast meter numbers for 2011**

| Meter Type                                       | 2011 forecast  |
|--|----------------|
| Single phase single element                      | 427,878        |
| Single phase single element meter with contactor | 130,287        |
| Three phase direct connected meter               | 85,056         |
| Three phase current transformer connected meter  | 3,035          |
| <b>Total</b>                                     | <b>646,256</b> |

**APPENDIX A: AER Template (Commercial in Confidence)**

**APPENDIX B: Verification of attribution of 2009 costs  
(Commercial in Confidence)**

**APPENDIX C: 2009 Regulatory Accounting Statements  
(Commercial in Confidence)**