



Draft

United Energy Distribution Pty Ltd
Distribution determination 2011–2015

June 2010

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Shortened forms

AER	Australian Energy Regulator
AH	After hours
BH	Business hours
capex	capital expenditure
CPI	Consumer Price Index
cl/cll.	clause/clauses
DMIA	Demand management innovation allowance
DMIS	Demand management incentive scheme
DNSP	Distribution network service provider
DUOS	Distribution use of system
EBSS	Efficiency benefit sharing scheme
ESCV	Essential Services Commission of Victoria
GSL	Guaranteed service level
GWh	Gigawatt hours
m	Million
MAIFI	Momentary average interruption frequency index
MWh	Megawatt hours
NDSC	Negotiated distribution services criteria
NEL	National Electricity Law
NER	National Electricity Rules
opex	operating expenditure
PTRM	Post tax revenue model
RAB	Regulatory asset base
s.	section
SAIDI	System average interruption duration index
SAIFI	System average interruption frequency index
TUOS	Transmission use of system
WACC	Weighted average cost of capital

Nature and authority

Clause 6.11.1 of the National Electricity Rules (NER) requires the Australian Energy Regulator (AER) to make a distribution determination in relation to United Energy Distribution Pty Ltd (hereafter referred to as 'United Energy').

- Clause 6.2.3 states that classification forms part of a distribution determination and operates for the regulatory control period for which the distribution determination is made.
- Clause 6.2.5 (a) states that a distribution determination is to impose controls over the prices of direct control services, the revenue to be derived from direct control services or both.
- Chapter 10 states that an event nominated in a distribution determination as a pass through event is a pass through event for the determination (in addition to those listed in the NER, that is, a regulatory change event, a service standard event, a tax change event and a terrorism event).
- Clause 6.3.1 requires the AER to make a building block determination in relation to United Energy as a component of a distribution determination. Clause 6.3.2(a) states that the building block determination is to specify the following matters for a regulatory control period:
 - (1) the Distribution Network Service Provider's annual revenue requirement for each regulatory year of the regulatory control period;
 - (2) appropriate methods for the indexation of the regulatory asset base;
 - (3) how any applicable efficiency benefit sharing scheme, service target performance incentive scheme, or demand management incentive scheme are to apply to the Distribution Network Service Provider;
 - (4) the commencement and length of the regulatory control period;
 - (5) any other amounts, values or inputs on which the building block determination is based (differentiating between those contained in, or inferred from, the service provider's building block proposal and those based on the AER's own estimates or assumptions).
- Clause 6.7.3 requires the AER to make a determination specifying requirements relating to the negotiating framework forming part of a distribution determination for a Distribution Network Service Provider is to set out requirements that are to be complied with in respect of the preparation, replacement, application or operation of its negotiating framework.
- Clause 6.7.4(a) requires the AER to make a determination by the AER specifying the Negotiated Distribution Service Criteria which forms part of a distribution determination for a Distribution Network Service Provider. This determination is to set out the criteria that are to be applied:
 - (1) by the providers in negotiating terms and conditions of access including:

- (i) the prices that are to be charged for the provision of negotiated distribution services by the provider for the relevant regulatory control period; or
 - (ii) any access charges which are negotiated by the provider during that regulatory control period; and
 - (2) by the AER in resolving an access dispute about terms and conditions of access including:
 - (i) the price that is to be charged for the provision of a negotiated distribution service by the provider; or
 - (ii) any access charges that are to be paid to or by the provider.
- Clause 6.7.4(b) sets out that the Negotiated Distribution Service Criteria must give effect to and be consistent with the Negotiated Distribution Service Principles set out in clause 6.7.1.
 - Clause 6.12.3(a) allows the AER the discretion to accept or approve, or refuse to accept or approve, any element of a regulatory proposal.
 - Clause 6.12.3(f) requires that if the AER refuses to approve an amount or value referred to in clause 6.12.1, the substitute amount or value on which the distribution determination is based must be:
 - (1) determined on the basis of the current regulatory proposal; and
 - (2) amended from that basis only to the extent necessary to enable it to be approved in accordance with the Rules.

The AER's draft distribution determination having regard to these clauses for United Energy is detailed below. Detailed analysis and discussion of the AER's considerations, reasoning and conclusions are set out in the AER's draft decision, released in conjunction with this draft determination. Reference to the draft decision is a reference to the AER's draft decision released with this determination on 4 June 2010, entitled *Draft decision, Victorian draft distribution determination 2011 to 2015*, 4 June 2010. Abbreviations have the meaning given to them in the draft decision.

1 Service classification determination

In accordance with clause 6.2.1 (a) and 6.12.1 (1) of the NER, the AER determines the following classification of services for United Energy for the 2011–2015 regulatory control period. The AER’s considerations, reasons and decision on service classification are also set out in the draft decision at chapter 2 and appendix B.

1.1 Direct control services (standard control services)

1.1.1 Network services

- Constructing the distribution network
- Maintaining the distribution network and connection assets
- Operating the distribution network and connection assets (for DNSP purposes)
- Designing the distribution network
- Planning the distribution network
- Emergency response
- Administrative support (for example, call centre, network billing)
- Location of underground cables

1.1.2 Connection services

- New connections requiring augmentations

1.2 Direct control services (alternative control services)

1.2.1 Fee based services

- Supply abolishment
- Fault response (not DNSP fault)
- Energisation of new connections
- Temporary disconnect / reconnect services
- Wasted attendance (not DNSP fault)
- Service truck visits
- Fault level compliance service
- Reserve feeder
- Photovoltaic installation

- Routine connections (customers below 100 amps)
- Temporary supply services

1.2.2 Quoted services

- Rearrangement of network assets at customer request, excluding alteration and relocation of existing public lighting assets
- Supply enhancement at customer request
- Emergency recoverable works (that is, emergency works where customer is at fault and immediate action needs to be taken by the DNSP)
- Auditing of design and construction
- Specification and design enquiry fees
- Elective underground service where an existing overhead service exists
- Covering of low voltage mains for safety reasons
- Damage to overhead service cables caused by high load vehicles
- High load escorts (lifting overhead lines)
- Covering of low voltage mains for safety reasons
- Routine connections (customers above 100 amps)

1.2.3 Public lighting services

- Operation, repair, replacement and maintenance of DNSP public lighting assets

1.2.4 Metering services – fee based

- De-energisation of existing connections
- Re-energisation of existing connections
- Meter investigation
- Special meter reading
- Re-test of types 5 and 6 metering installations for first tier customers with annual consumption greater than 160 MWh

1.3 Negotiated services

- Alteration and relocation of DNSP public lighting assets
- New public lighting assets (that is, new lighting types not subject to a regulated charge and new public lighting at green field sites)

1.4 Unregulated services

- The installation, maintenance and provision and repair of watchman (security) lights
- Provision of possum guards

2 Control mechanisms

In accordance with clause 6.2.5, 6.12.1 (11) and 6.12.1 (12), of the NER, the AER determines the following control mechanisms to apply to United Energy's direct control services for the 2011–15 regulatory control period. The AER's considerations, reasons and decision on control mechanisms are also set out in the draft decision at chapters 4, 19 and 20, and appendices E, F, G and O.

2.1 Standard control services

A weighted average price cap (WAPC). The WAPC formula to apply to United Energy is:

$$\frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} \times q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} \times q_{t-2}^{ij}} \leq (1 + CPI_t) \times (1 - X_t) \times (1 + S_t) \times (1 + L_t) \pm (passthrough_t)$$

where a DNSP has n *distribution tariffs*, which each have up to m *distribution tariff components*, and where:

regulatory year 't' is the regulatory year in respect of which the calculation is being made;

regulatory year 't-1' is the regulatory year immediately preceding regulatory year 't';

regulatory year 't-2' is the regulatory year immediately preceding regulatory year 't-1';

p_t^{ij} is the proposed distribution tariff for component j of distribution tariff i in regulatory year t ;

p_{t-1}^{ij} is the distribution tariff being charged in regulatory year $t-1$ for component j of distribution tariff i ;

q_{t-2}^{ij} is the quantity of component j of distribution tariff i that was delivered in regulatory year $t-2$;

CPI_t is calculated as follows:

The Consumer Price Index, All Groups Index Number (weighted average of eight capital cities) published by the Australia Bureau of Statistics for the September Quarter immediately preceding the start of regulatory year t ;

divided by

The Consumer Price Index, All Groups Index Number (weighted average of eight capital cities) published by the Australia Bureau of Statistics for

the September Quarter immediately preceding the start of regulatory year t-1;

minus one.

X_t is the value of X for year t of the regulatory control period as determined by the AER in chapter 18 of the draft decision;

S_t is the Service Target Performance Incentive Scheme factor to be applied in regulatory year t;

L_t is the licence fee pass through adjustment to be applied in regulatory year t in accordance with appendix E.2 of the draft decision; and

$Pass\ through_t$ is the change in approved pass through amounts, expressed in percentage form, with respect to regulatory year t as compared to regulatory year t-1, as determined by the AER

With the side constraints formula to apply as follows:

$$\frac{\sum_{j=1}^m d_t^j \times q_{t-2}^j}{\sum_{j=1}^m d_{t-1}^j \times q_{t-2}^j} \leq (1 + CPI_t) \times (1 - X_t) \times (1 + S_t) \times (1 + L_t) \times (1 + 2\%) \pm (passthrough_t)$$

Where each tariff class 'j' has up to 'm' components, and where:

d_t^j is the proposed price for component j of the tariff class for year t

d_{t-1}^j is the price charged by the DNSP for component j of the tariff class in year t-1

q_{t-2}^j is the audited quantity of component j of the tariff class that was charged by the DNSP in year t-2

X_t is the value of X for year t of the regulatory control period as determined by the AER in chapter 18 of the draft decision. If $X > 0$, then X will be set equal to zero for the purposes of the side constraint formula

S_t is the Service Target Performance Incentive Scheme factor to be applied in regulatory year t

L_t is the licence fee pass through adjustment to be applied in regulatory year t

CPI_t is defined as set out in section 4.6.1 of the draft decision.

$Pass\ through_t$ is the change in approved pass through amounts, expressed in percentage form, with respect to regulatory year t as compared to regulatory year t-1, as determined by the AER

2.2 Alternative control services

2.2.1 Public lighting

In accordance with clause 6.12.1(12) of the NER, the control mechanism to apply to United Energy's public lighting services is caps on the prices of individual services in each regulatory year of the forthcoming regulatory control period, as set out in table 1 below, and price paths for the remaining regulatory years of the forthcoming regulatory control period.

Table 1 Draft determination on public lighting charges for United Energy (\$, 2010 nominal)

Lighting service	2011	2012	2013	2014	2015
Mercury vapour 80 watt	48.88	52.23	55.80	59.34	62.73
Sodium high pressure 150 watt	78.26	82.33	86.63	90.93	95.11
Sodium high pressure 250 watt	79.57	83.78	88.22	92.66	96.96
T5 2X14 watt	25.15	25.78	26.53	27.52	28.48
Fluorescent 2x20 watt	63.06	67.38	71.98	76.55	80.92
Fluorescent 3x20 watt	63.06	67.38	71.98	76.55	80.92
Mercury vapour 50 watt	72.35	77.30	82.58	87.82	92.84
Mercury vapour 125 watt	72.35	77.30	82.58	87.82	92.84
Mercury vapour 250 watt	72.41	76.24	80.28	84.32	88.23
Mercury vapour 400 watt	100.26	105.56	111.16	116.75	122.17
Mercury vapour 700 watt	100.26	105.56	111.16	116.75	122.17
Sodium high pressure 70 watt	107.05	114.38	122.20	129.95	137.38
Sodium high pressure 100 watt	86.09	90.56	95.29	100.03	104.62
Sodium high pressure 400 watt	100.26	105.56	111.16	116.75	122.17
Metal halide 70 watt	105.66	111.14	116.95	122.76	128.40
Metal halide 100 watt	105.66	111.14	116.95	122.76	128.40
Metal halide 150 watt	105.66	111.14	116.95	122.76	128.40
Metal halide 250 watt	107.42	113.10	119.10	125.09	130.89
Metal halide 400 watt	107.42	113.10	119.10	125.09	130.89

2.2.2 Fee based alternative control services

In accordance with clause 6.12.1(12) of the NER, the control mechanism to apply to United Energy's fee based alternative control services is caps on the prices of individual fee based alternative control services in the first regulatory year of the forthcoming regulatory control period, as set out in table 2 below, and price paths for the remaining regulatory years of the forthcoming regulatory control period.

United Energy's price path is such that approved 2011 prices for fee based alternative control services will be escalated by CPI over 2012–15. This excludes services for which AER seeks further information from United Energy on prices.

Table 2 AER draft determination fee based alternative control services prices for United Energy (\$, 2010)

Fee based services	Current price	Proposed price	AER draft decision price
Field Officer Visits – Existing Premises			
Special read (basic meter)	29.91	9.97	9.97
Special read (interval meter)	29.91	11.07	11.07
Re-energise (fuse insert)—BH (unit rate)	29.91	35.91	35.91
De-energise (fuse removal)—BH (unit rate)	29.91	35.91	35.91
Express move in re-energise (fuse insert)—BH (unit rate)	N/A	108.21	108.21
Re-energise (fuse insert)—AH (unit rate)	94.77	114.77	114.77
De-energise (fuse removal)—AH (unit rate)	N/A	114.77	114.77
Express move in re-energise (fuse insert)—AH (unit rate)	94.77	114.77	114.77
Temporary Supplies (exc inspection) – Coincident Disconnection			
Standard single phase—BH (unit rate)	129.68	83.97	83.97
Multi phase to 100A—BH (unit rate)	369.14	239.00	83.97
Standard single phase—AH (unit rate)	Variable (N/A)	176.96	176.96
Multi phase to 100A—AH (unit rate)	Variable (N/A)	503.71	176.96
Temporary Supplies (exc inspection) – Independent Disconnection			
Independent disconnection standard single phase—BH (unit rate)	179.59	167.93	167.93
Independent disconnection multi phase to 100A—BH (unit rate)	429.00	401.15	158.32
Independent disconnection standard single phase—AH (unit rate)	Variable (N/A)	353.91	353.91
Independent disconnection multi phase to 100A—AH (unit rate)	Variable (N/A)	845.41	845.41
Conversion from Coincidental to Independent Disconnection			
Standard single phase – changed from	49.91	83.96	83.96

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coincidental to independent (unit rate)			
Multi Phase – changed from coincidental to independent (unit rate)	59.86	176.96	176.96
New Connection where United Energy is the Responsible Person			
Single phase single element—BH (unit rate)	161.64	201.38	201.38
Single phase two element (off-peak)—BH (unit rate)	224.64	201.38	201.38
Three phase direct connected—BH (unit rate)	284.55	201.38	201.38
Single phase single element—AH (unit rate)	406.09	452.15	226.08
Single phase two element (off-peak)—AH (unit rate)	469.09	452.15	98.24
Three phase direct connected—AH (unit rate)	519.05	659.01	329.50
New Connections – where United Energy is Not the Responsible Person			
Single phase single element—BH (unit rate)	104.64	87.51	87.51
Single phase two element (off-peak)—BH (unit rate)	104.64	87.51	87.51
Three phase direct connected—BH (unit rate)	134.55	87.51	87.51
Single phase single element—AH (unit rate)	349.09	175.02	98.24
Single phase two element (off-peak)—AH (unit rate)	349.09	175.02	98.24
Three phase direct connected—AH (unit rate)	369.05	175.02	143.19
Service Vehicle Visits (without inspection)			
Service truck – first 30 minutes—BH (unit rate)	99.77	102.16	102.16
Each additional 15 minutes—BH (unit rate)	24.91	41.98	41.98
Wasted service truck visit—BH (unit rate)	44.86	41.98	41.98
Service truck – first 30 minutes—AH (unit rate)	578.68	158.49	113.54
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rate)			
Each additional 15 minutes—AH (unit rate)	44.86	44.95	44.95
Wasted service truck visit—AH (unit rate)	578.68	158.49	47.67
Meter Equipment Test			
Single phase	10.38	49.83	49.83
Single phase (each additional meter)	34.16	44.29	44.29
Multi phase	10.38	77.51	77.51
Multi phase (each additional meter)	34.16	71.97	71.97
Fee based services for which the AER requires further information from United Energy to set a charge			
Routine new connections—three phase current transformer connected—BH	–	–	Further information requested
Routine new connections—three phase current transformer connected—AH	–	–	Further information requested

2.2.3 Quoted alternative control services

In accordance with clause 6.12.1(12) of the NER, the control mechanism for United Energy's quoted alternative control services consists of caps on the applicable labour rates in the first regulatory year of the forthcoming regulatory control period, and price paths for the remaining regulatory years of the forthcoming regulatory control period. Materials for quoted services are to be recovered at cost.

However, in the absence of any proposed 2011 quoted services input rates or price path, the AER's draft determination does not approve 2011 labour rates for quoted services to apply to United Energy. The AER requests that United Energy submit appropriate information in its revised regulatory proposal including hourly labour rates for quoted alternative control services. Consistent with its approach for the other Victorian DNSPs, the AER's draft determination is that the price path for quoted services labour rates is to consist of escalation of an approved 2011 quoted services labour rate by the outsourced labour escalation rate approved by the AER for standard control services, discussed in appendix K of the draft decision.

3 Building block determination

3.1 Revenue requirement

In accordance with clause 6.3.2(a)(1) and 6.12.1(2) of the NER, the AER rejects United Energy's proposed annual revenue requirement for each regulatory year of forthcoming regulatory control period. In accordance with clause 6.12.1 (2) and 6.12.1 (11) of the NER, the AER's draft determination on United Energy's revenue requirements and X factors is set out in table 3 below. The AER's considerations, reasons and decision on the annual revenue requirement for United Energy are also set out in the draft decision at chapter 18.¹

Table 3 AER draft determination on revenue requirements and X factors for United Energy (\$'m, nominal)

	2010	2011	2012	2013	2014	2015
Return on capital		134.3	142.2	149.4	155.6	161.8
Regulatory depreciation		36.0	42.7	50.2	57.9	66.2
Operating expenditure		92.9	95.8	99.7	105.6	108.9
Efficiency carryover amounts		0.0	0.0	0.0	0.0	0.0
S factor amounts		-5.1	-19.8	-19.2	-20.1	-47.6
Tax allowance		4.8	5.6	6.7	7.2	7.8
Annual revenue requirements		262.9	266.6	286.8	306.2	297.0
Expected revenues	296.2	249.5	262.1	281.0	303.5	332.2
Forecast CPI (per cent)		2.57	2.57	2.57	2.57	2.57
X factors (per cent)		19.57	0.00	-2.00	-3.00	-5.00

Note: Negative values for X indicate real price increases under the CPI-X formula

3.2 Indexation of regulatory asset base

In accordance with clause 6.3.2(a)(2) of the NER, an appropriate methodology for indexation of United Energy's regulatory asset base is the same as that used to annual change in the *Consumer Price Index: All Groups Index for the Eight State Capitals* as published by the Australian Bureau of Statistics for the September quarter immediately preceding the start of the relevant regulatory year.

¹ The relevant inputs into this table are discussed in the draft decision as follows – chapter 10 (depreciation), chapter 11 (cost of capital), chapter 7 (opex), chapter 13 (efficiency measurements – ESCV's ECM 2006-2010), chapter 12 (corporate income tax and imputation credits), chapter 18 (overall revenue requirement and x factors) and chapter 15 (service target performance incentive scheme).

3.3 Schemes

3.3.1 EBSS

In accordance with clause 6.3.2(a)(3) and 6.12.1(9) of the NER, the EBSS to apply to United Energy for the forthcoming regulatory control period is the AER's *Electricity distribution network service providers, Efficiency benefit sharing scheme*, June 2008. The AER's considerations, reasons and conclusion on the application of the EBSS are also set out in the draft decision at chapter 14. The excluded cost categories for United Energy are:

- debt raising costs
- self insurance costs
- superannuation costs for defined benefits and retirement schemes
- the DMIA
- GSL payments.

These excluded costs will be recognised in addition to the adjustments set out in section 2.3.2 of the EBSS.

For the purpose of calculating carryover amounts, forecast opex will be adjusted for the actual growth in line length, the number of distribution transformers and zone substations, and customer numbers experienced over the forthcoming regulatory control period using the scale escalation method described in appendix J of the draft decision. The AER's determination on controllable opex for the EBSS is set out in table 5 below.

Table 4 AER draft determination on forecast controllable opex for EBSS purposes for United Energy (\$'m, 2010)

	2011	2012	2013	2014	2015	Total
Total forecast opex	90.53	91.09	92.38	95.43	95.91	465.34
Adjustment for debt raising costs	-0.75	-0.78	-0.80	-0.81	-0.82	-3.96
Adjustment for self insurance	-0.02	-0.02	-0.02	-0.02	-0.02	-0.12
Adjustment for superannuation ^a	-	-	-	-	-	-
Adjustment for non-network alternatives ^a	-	-	-	-	-	-
Adjustment for DMIA	-0.40	-0.40	-0.40	-0.40	-0.40	-2.00
Adjustment for GSL payments	-0.27	-0.27	-0.27	-0.27	-0.27	-1.33
Forecast opex for EBSS purposes	89.08	89.62	90.89	93.93	94.40	457.92

Note: Totals may not add up due to rounding.

- (a) In its regulatory proposal United Energy did not provide sufficient information to identify the amount of opex expended on non-network alternatives and superannuation in the base year. Consequently the AER has been unable to determine the level of opex included in United Energy's opex allowance for these costs. This amount will be identified in the AER's final decision.

3.3.2 DMIS

In accordance with clause 6.3.2(a)(3) and 6.12.1(9) of the NER, the DMIS to apply to United Energy for the forthcoming regulatory control period is the *Demand management incentive scheme—CitiPower, Powercor, Jemena, SP AusNet and United Energy, April 2009*. The AER's considerations, reasons and conclusion on the application of the DMIS are also set out in the draft decision at chapter 17.

Part A of the DMIS (that is, the DMIA) will apply to United Energy. Part B (the forgone revenue component) will also apply to United Energy. The DMIA is capped at \$2 million for the forthcoming regulatory control period and allocated to United Energy in equal annual instalments of \$400 000 for each year of the forthcoming regulatory control period. Approval of DMIA amounts by the AER will be subject to satisfaction of the DMIA criteria in the DMIS.

3.3.3 STPIS

In accordance with clause 6.3.2(a)(3) and 6.12.1(9) of the NER, the STPIS to apply to United Energy for the forthcoming regulatory control period is the AER's *Electricity distribution network service providers, Service target performance incentive scheme*, November 2009. The AER's considerations, reasons and conclusion on the application of the STPIS are also set out in the draft decision at chapter 15.

The applicable parameters are the SAIDI, SAIFI and MAIFI reliability of supply parameters and the telephone answering customer service parameter, defined as follows:

Telephone answering: Calls to the fault line answered in 30 seconds where the time to answer a call is measured from when the call enters the telephone system of the call centre (including that time when it may be ringing unanswered by any response) and the caller speaks with a human operator, but excluding the time that the caller is connected to an automated interactive service that provides substantive information. This measure does not apply to calls to payment lines and automated interactive services; and calls abandoned by the customer within 30 seconds of the call being queued for response by a human operator. Where the time in which a telephone call is abandoned is not measured, then an estimate of the number of calls abandoned within 30 seconds will be determined by taking 20 per cent of all calls

SAIDI: The sum of the duration of each unplanned sustained customer interruption (in minutes) divided by the total number of distribution customers. Unplanned SAIDI excludes momentary interruptions (one minute or less).

SAIFI: The total number of unplanned sustained customer interruptions divided by the total number of distribution customers. Unplanned SAIFI excludes momentary interruptions.²

As a transitional provision and in accordance with clause 2.6(c) of the STPIS, the AER will apply the definition of MAIFI as defined by the ESCV:

The total number of momentary interruptions divided by the total number of distribution customers (where the distribution customers are network or per feeder based, as appropriate).³

For the reliability of supply parameters United Energy's network will be segmented into urban and short rural feeder types, with targets as set out in table 5.

Table 5 AER draft determination performance targets for SAIDI, SAIFI, MAIFI and the telephone answering parameter for United Energy

Feeder	Parameter	United Energy
Urban	SAIDI	55.09
	SAIFI	0.899
	MAIFI	1.074
Rural short	SAIDI	99.15
	SAIFI	1.742
	MAIFI	2.122
	Telephone answering	58.14 per cent

In accordance with clause 2.5(a) of the STPIS the cap on revenue at risk is set at ± 5 per cent. In accordance with clause 5.2(b) of the STPIS there is a cap on the revenue at risk of ± 0.5 per cent for the telephone answering parameter.

The incentive rate to apply to each applicable parameter are calculated in accordance with clauses 3.2.2, 5.3.2(a)(1) and appendix B of the STPIS, and are set out in table 6.

² Defined as per the AER's *STPIS*, November 2009, pp. 22-23. SAIDI is measured in average minutes, SAIFI and MAIFI is measured by average interruptions.

³ Momentary interruptions are defined as per *Information Specification (Service Performance) for Victorian Electricity Distributors*, 1 January 2009, p. 30.

Table 6 AER draft determination on incentive rates for SAIDI, SAIFI, MAIFI and the telephone answering parameter for United Energy (per cent per unit)

Feeder	Parameter	United Energy
Urban	SAIDI	0.1432
	SAIFI	8.7494
	MAIFI	0.6999
Rural short	SAIDI	0.0152
	SAIFI	0.9385
	MAIFI	0.0751
	Telephone answering	-0.040

The AER will close out the ESCV's s factor scheme by applying the following methodology:

1. The DNSP's reliability performance for 2010 is estimated as the actual performance will not be known until part way through 2011.⁴ The AER considers that an appropriate estimation methodology to use is the average performance over the past five years (2005–2009).
2. S't is calculated for 2009 and 2010 in accordance with the ESCV's S factor scheme.
3. S't for 2011 and 2012 is calculated by banking S't in accordance with the DNSP's stated intentions.⁵ The WACC to apply in the banking calculation is the 2006–10 EDPR WACC.
4. S't for 2013–2018 is held constant at 0.
5. St is calculated for 2010–2018 in accordance with the ESCV's S factor scheme. The AER notes that St and S't-6 become zero after 2018 and at this time the effects of the ESCV's S factor scheme have been fully accounted for.
6. The estimates of forecast revenue are to be the approved 2010 tariff prices multiplied by the demand forecast. For the years 2016–18, forecast revenues are to be held constant at 2015 levels.
7. The S factor is applied to the forecast revenues for 2011–18. For 2011–15, the difference between the estimates of tariff revenues, excluding and including the S factor is then factored into the building blocks.

⁴ The AER has included actual 2009 figures provided by the Victorian DNSPs, but has not assessed the results. The AER will undertake this assessment prior to publishing its Final Decision.

⁵ Consistent with the current operation of the ESCV's S factor scheme, the Victorian DNSPs will be able to make a final decision whether or not to use the s-bank mechanism when setting tariffs for 2012.

8. The difference between the estimates of tariff revenues, excluding and including the S factor, for 2016–18 are converted to 2015 values in net present value terms and applied to the building blocks in 2015. The WACC to apply to this NPV calculation is the 2011–15 EDPR WACC.

The GSL component of the STPIS will not apply while the ESCV’s GSL scheme remains in place. In the event that the ESCV’s GSL scheme is withdrawn the AER will implement the GSL scheme in the AER’s STPIS. The AER concludes that, pursuant to clause 6.5.6(a)(2) of the NER, it will include its forecast total GSL payments in table 7 as a line item in the opex allowance, for each year in the forthcoming regulatory period.

Table 7 AER draft determination on GSL payments for United Energy (\$, nominal)

GSL parameter	Forecast number	Forecast payments
15 minutes late for an appointment	30	592
Connections not made on agreed date total	72	7 234
Connections not made—1–4 day delay	64	4 874
Connections not made—5+ day delay	10	2 360
20 hours of interruptions	2 071	207 075
30 hours of interruptions	237	35 475
60 hours of interruptions	34	10 200
10 interruptions	61	6 050
15 interruptions	–	–
30 interruptions	–	–
24 momentary interruptions	–	–
36 momentary interruptions	–	–
Streetlights	18	184
Total		266 810

The major event day threshold is to be set at 2.5 beta from the mean. The major event day threshold is to be calculated in accordance with section 3.3 of the STPIS.

The St factor derived under the STPIS and applied to the WAPC formula for 2011 and 2012 will be zero.

3.4 Regulatory control period

In accordance with clause 6.3.2(a)(4) and 6.12.1 (2) of the NER, the regulatory control period is five years long, commencing 1 January 2011 and ceasing on 31 December 2015.

3.5 Other amounts, values or inputs

In accordance with clause 6.3.2(a)(5) and 6.12.1(10) of the NER, any other amounts, values or inputs on which United Energy's building block determination is based are as specified in below.

3.5.1 RAB roll forward

In accordance with clause 6.12.1 (6) of the NER, the total opening asset base for United Energy as at 1 January 2011 is \$1387.7 million for standard control services. Table 8 illustrates the AER's forecast roll-forward of United Energy's RAB.

The AER's considerations, reasons and decision on the RAB for United Energy are also set out in the draft decision at chapters 9 and 18.

Table 8 AER forecast roll-forward of the RAB for United Energy (\$'m, nominal)

	2011	2012	2013	2014	2015
Opening RAB	1387.7	1469.6	1543.6	1607.9	1671.5
Net capital expenditure	117.9	116.7	114.5	121.5	126.4
Indexation of opening RAB	35.7	37.8	39.7	41.4	43.0
Straight-line depreciation	71.8	80.5	89.9	99.3	109.2
Closing RAB	1469.6	1543.6	1607.9	1671.5	1731.8

Note: The straight-line depreciation less the inflation adjustment on the opening RAB provides the regulatory depreciation building block allowance.

3.5.2 Capital expenditure

In accordance with clause 6.12.1 (3) (i) of the NER, the AER does not accept United Energy's forecast capex for the forthcoming regulatory control period. In accordance with clause 6.12.1 (3) (ii) of the NER, the AER's considerations, reasons and decision on capex for United Energy are also set out in the draft decision at chapter 8. The AER's estimate of United Energy's total capex for the forthcoming regulatory control period is set out in table 9.⁶

⁶ The relevant inputs into forecast capex are discussed in the draft decision as follows – chapter 6 (outsourcing and related party transactions), appendix N (equity raising costs)

Table 9 AER draft determination on capital expenditure for United Energy (\$'m, 2010)

	2011	2012	2013	2014	2015	Total
Gross direct capex	128.8	128.0	124.1	127.8	128.5	637.2
Direct overheads	–	–	–	–	–	–
Indirect overheads	–	–	–	–	–	–
Cost increases	1.8	2.1	2.8	3.9	4.7	15.3
Margins	–	–	–	–	–	–
Less contributions	–22.7	–22.8	–24.4	–25.5	–25.5	–120.9
Total net capex	107.9	107.3	102.6	106.2	107.7	531.5

3.5.3 Cost of capital

In accordance with clause 6.12.1 (5) of the NER, the AER's determination on United Energy's WACC is set out in table 10. The AER's considerations, reasons and decision on the cost of capital for United Energy are also set out in the draft decision at chapter 11.

Table 10 AER draft determination on WACC parameters for United Energy

Parameter	United Energy
Nominal risk-free rate	5.65%
Real risk-free rate	3.00%
Expected inflation rate	2.57%
Gearing level (debt/equity)	60%
Market risk premium	6.5%
Equity beta	0.8
Debt risk premium	3.25%
Nominal pre-tax return on debt	8.90%
Nominal pre-tax return on equity	10.85%
Nominal WACC	9.68%

3.5.4 Depreciation

In accordance with clause 6.12.1 (8) of the NER, the AER does not accept United Energy's depreciation schedule. The AER's considerations, reasons and

decision on depreciation for United Energy are also set out in the draft decision at chapter 10. The AER's determination on depreciation for United Energy is set out in table 11.

Table 11 AER draft determination on regulatory depreciation for United Energy (\$'m, nominal)

	2011	2012	2013	2014	2015	Total
United Energy	36.0	42.7	50.2	57.9	66.2	252.9

3.5.5 Operating expenditure

In accordance with clause 6.12.1 (4) (i) of the NER, the AER does not accept United Energy's forecast opex for the forthcoming regulatory control period. In accordance with clause 6.12.1 (4) (ii) of the NER, the AER's considerations, reasons and decision on opex for United Energy are also set out in the draft decision at chapter 7. The AER's estimate of United Energy's total opex is set out in table 12.⁷

Table 12 AER draft determination on operating expenditure for United Energy (\$m 2010)

	2011	2012	2013	2014	2015	Total
United Energy proposed opex	123.8	120.2	119.7	119.2	118.9	601.8
<i>AER opex build-up</i>						
AER base year costs	85.0	85.0	85.0	85.0	85.0	424.8
AER scale escalation	0.3	0.6	0.9	1.2	1.5	4.6
AER real cost escalation	1.6	2.4	3.4	4.7	5.5	17.6
AER step changes	2.2	1.6	1.6	3.0	2.4	10.9
AER debt raising costs	0.8	0.8	0.8	0.8	0.8	4.0
AER self insurance	0.0	0.0	0.0	0.0	0.0	0.1
AER other ^a	0.7	0.7	0.7	0.7	0.7	3.3
AER total opex	90.5	91.1	92.4	95.4	95.9	465.3
Adjustment	-33.3	-29.1	-27.3	-23.8	-23.0	-136.5
Adjustment (per cent)	-26.9	-24.2	-22.8	-19.9	-19.3	-22.7

(a) DMIS, GSL.

⁷ The relevant inputs into this table are discussed in the draft decision as follows – chapter 6 (related parties and outsourcing), appendix H (outsourcing and related parties), appendix I (benchmarking), appendix J (scale escalators), appendix K (labour and material cost escalators), appendix L (step changes), appendix M (self insurance), appendix P (debt raising costs).

3.5.6 Cost of corporate income tax

In accordance with clause 6.12.1 (7) of the NER, the AER's determination on corporate income tax liability for United Energy is set out in table 13. The AER's considerations, reasons and decision on cost of corporate income tax for United Energy are also set out in the draft decision at chapter 12.

Table 13 AER draft determination on corporate income tax liability for United Energy (\$'m, nominal)

	2011	2012	2013	2014	2015
United Energy	4.8	5.6	6.7	7.2	7.8

3.5.7 Other values, amounts and inputs

In accordance with clause 6.12.1(10) of the NER, the AER has determined other values, amounts and inputs.

These other values, amounts and inputs relate to growth forecasts, the ESCV's s-factor carryover amounts, and the ESCV's efficiency carryover mechanism (ECM) carryover amounts.

The AER's considerations, reasons and decisions on growth forecasts, s-factor carryover amounts and ECM carryover amounts for United Energy are set out in the draft decision at chapters 5, 13 and 15 respectively. The AER's determinations on these additional inputs for United Energy are set out in tables 14 and 15 below.

Table 14 AER draft determination on growth forecasts for United Energy

	2011	2012	2013	2014	2015
Sum of non-coincident zone substations (MW)	2 266	2 352	2 406	2 509	2 558
Energy consumption (GWh)	8 193	8 444	8 710	8 921	9 072
Customer numbers	630 196	634 300	637 565	641 377	646 461

Table 15 AER draft determination on building blocks amounts resulting from the ESCV S factor for United Energy (\$'m, 2010)

	2011	2012	2013	2014	2015
United Energy	-4.95	-18.81	-17.76	-18.15	-41.96

4 Pass through events

In accordance with chapter 10 and clause 6.12.1 (14) of the NER, the nominated pass through events to apply to United Energy are listed below. The AER's considerations, reasons and decision on pass throughs are also set out in chapter 16 of the draft decision.

- a declared retailer of last resort event:

A declared retailer of last resort event is the occurrence of an event whereby an existing retailer is unable to continue to supply electricity to its customers and those customers are transferred to the declared retailer of last resort, and which:

- (a) falls within no other category of pass through event; and
- (b) materially increases the costs of providing direct control services.

For this purpose, an event is considered to materially increase or decrease costs where that event has an impact of 1 per cent of the smoothed forecast revenue specified in the final decision in the years of the regulatory control period that the costs are incurred.

- insurer credit risk event:

An event where the insolvency of the nominated insurers of the DNSP, as a result of which the DNSP:

incurs materially higher or lower costs for insurance premiums than those allowed for in the distribution determination; or

in respect of a claim for a risk that would have been insured by the DNSP's insurers, is subject to materially higher or lower claim limit or a materially higher or lower deductible than would have applied under that policy.

For this purpose, an event is considered to materially increase or decrease costs where that event has an impact of 1 per cent of the smoothed forecast revenue specified in the final decision in the years of the regulatory control period that the costs are incurred.

- an insurance event:

An event that would be covered by an insurance policy but for the amount that materially exceeds the policy limit, and as a result the DNSP must bear the amount of that excess loss. For the purposes of this pass through event, the relevant policy limit is the greater of the actual limit from time to time and the limit under the DNSP's insurance cover at the time of making this regulatory proposal. This event excludes all costs incurred beyond an insurance cap that are due to the DNSP's negligence, fault or lack of care. This also excludes all liability arising from the DNSP's unlawful conduct, and excludes all liability and damages arising from actions or conduct expected or intended by the DNSP.

For this purpose, an event is considered to materially increase or decrease costs where that event has an impact of 1 per cent of the smoothed forecast revenue specified in the final decision in the years of the regulatory control period that the costs are incurred.

- a natural disaster event:

Any major fire, flood, earthquake, or other natural disaster beyond the control of the DNSP (but excluding those events for which external insurance or self insurance has been included within the DNSP's forecast operating expenditure) that occurs during the forthcoming regulatory control period and materially increases the costs to the DNSP of providing direct control services.

For this purpose, an event is considered to materially increase or decrease costs where that event has an impact of 1 per cent of the smoothed forecast revenue specified in the final decision in the years of the regulatory control period that the costs are incurred.

5 Negotiating framework determination

In accordance with clause 6.12.3(g) and 6.12.1(15) of the NER, the AER is not satisfied that United Energy's negotiating framework adequately complies with the requirements of Part D of the NER. The AER's considerations, reasons and decision on negotiating frameworks are also set out in chapter 3 and appendix C of the draft decision.

As such, the AER requires the following amendments to page six of United Energy's negotiating framework:

page 6 - under clause 8(b), remove the phrase *'take reasonable steps to'*.

6 Negotiated distribution services criteria determination

In accordance with clause 6.7.4 and 6.12.1 (16) of the NER, the negotiated distribution services criteria (NDSC) to apply to United Energy are set out at appendix D of the draft decision. The AER's considerations, reasons and decision on the NDSC are also set out in chapter 3 draft decision.

7 Other constituent decisions

7.1 Compliance with control mechanisms

In accordance with clause 6.12.1(13) of the NER, the AER determines that compliance with the relevant control mechanisms for direct control services is to be demonstrated as follows.

7.1.1 Standard control services

Compliance with the control mechanism standard control services will be monitored as set out in appendix E of the draft decision.

7.1.2 Alternative control services

Compliance with the alternative control services control mechanisms will be demonstrated through an annual pricing proposal process.

Compliance with the control mechanism for public lighting services is to be demonstrated by United Energy through the annual pricing approval process and be consistent with this decision for the relevant regulatory year. Operation, maintenance and repair charges approved by the AER will be subjected to CPI adjustment for each year of the forthcoming regulatory control period.

7.2 Procedures for assigning customers to tariff classes

In accordance with clause 6.12.1(17), the AER's draft decision on the procedures for assigning customers to tariff classes, or reassigning customers from one tariff class to another is set out in appendix G of the draft decision.

7.3 Depreciation for establishing the RAB as at the commencement of the following regulatory control period

In accordance with clause 6.12.1(18), the AER determines that depreciation based on actual capital expenditure will be used to determine United Energy's regulatory asset base as at the commencement of the following regulatory control period.

7.4 Recovery of TUOS charges

In accordance with clause 6.12.1 (19) of the NER, the AER's draft decision on how United Energy is to report to the AER on its recovery of TUOS charges for each regulatory year of the forthcoming regulatory control period is set out in appendix F of the draft decision.