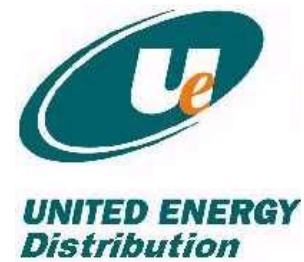


Submission to the Essential Services Commission

Response to the Commission's Issues Paper



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Executive Summary

This submission is United Energy Distribution's (UED's) response to the Commission's *Issues Paper* on the Electricity Distribution Review, published December 2004.

UED is disappointed that the company's price-service offering for the 2006-2010 regulatory period has not been considered by the Commission as an integrated "package". The company's price-service offering, if accepted, would build on and consolidate the substantial service improvements and price reductions already delivered by the company over the 2001-2005 period, by providing:

- further improvements in service performance by reducing unplanned interruptions to supply;
- undergrounding of assets, with consequential benefits in terms of improved public safety;
- the creation of a fund aimed at financing institutions and or individuals with research into technological improvements in the energy industry;
- support for the implementation of the interval metering rollout program;
- an industry skilling and training program, to ensure that appropriate skills and knowledge are retained and developed within the industry over the longer term; and
- further price reductions in real terms for each year in the 2006-2010 period.

However, instead of examining the performance improvements already delivered and considering the mix of price-service offerings in the forthcoming period in that context, the Commission has taken a forensic, piecemeal approach to examining the offering. UED will provide a further submission to the Commission and interested parties on the implications of this approach. In our view, the Commission's approach brings into question whether regulation is focusing appropriately on long term outcomes for customers (in accordance with the Commission's primary statutory objective), or whether in fact it is becoming unnecessarily embroiled in its own detailed processes and reviews. By minutely dissecting and seeking to determine both inputs (programs and budgets) and outputs (service delivery levels), the Commission risks missing out on a good overall deal for customers and the community.

The Commission's approach so far to this review appears to be inconsistent with the widely held view that lighter-handed forms of regulation could deliver substantial benefits to customers. For example, in relation to capital expenditure, the Commission appears to be contemplating a forensic examination of "deferred" projects in order to apply a penalty to the distributors concerned. Such an approach sharply contrasts with the regulator's earlier statement:

Importantly, these benchmarks do not represent amounts that the distributors are required to spend, or to direct to particular activities. They are free to determine their own expenditure priorities in the light of emerging market and commercial circumstances and to pursue innovations and efficiencies that enable them to outperform the revenue benchmarks and service targets. The incentive-based price cap approach used in this determination means

that the distributors will retain, without any retrospective adjustment, the benefits of any gains made by spending less than the amounts estimated by these benchmarks.¹

UED is disappointed that instead of moving towards light-handed regulation, the Commission is now considering additional heavy-handed analysis, contrary to the approach described in the previous determination. Apart from the proposed examination of deferred projects, the Commission has also raised the possibility of adopting Ofgem's approach to regulating capital expenditure. Whilst UED does not object to considering such developments, we question the overall direction of the Commission's approach, and whether in fact it is likely to deliver long-term benefits to customers.

With regard to the detailed points raised in the *Issues Paper*, UED is concerned that the Commission wrongly suggests that UED has not satisfied the Commission's guidelines for the review or its accounting guidelines. As a minimum, the company has met the spirit of the Commission's information requirements, and in almost all cases the company has also satisfied the detailed technical requirements. UED believes that the Commission has set an extremely burdensome if not impossible target of "total compliance", given the very large quantum of information requested by the Commission.

In relation to important issues such as the DB's annual regulatory accounting returns, the *Issues Paper* raises concerns for practically the first time. The Commission has had opportunities to raise any concerns with the businesses throughout the current regulatory period, but has chosen not to do so. In places, the content and tone of the *Issues Paper* is therefore disappointing.

In relation to accounting matters, the Commission has incorrectly claimed that UED has not reported its actual costs. The Commission further argues that it is unreasonable to base contract prices on the Commission's own benchmarks, even though these were established through a rigorous price review process and reflected the Commission's own assessment of "efficient costs". UED cannot accept the Commission's arguments. Instead, UED believes that related parties *must* be capable of earning profits if out-sourcing is to deliver efficiency gains to shareholders and customers alike. UED believes that the Commission's concerns are ill-founded, and the company stands ready to discuss these matters further with the Commission.

UED is also concerned that the Commission claims its regulatory mechanism will share efficiency gains with customers and shareholders "fairly", and that 70/30 sharing is fair. The Commission will be well aware that UED strongly disagrees with it on these points. Firstly, 70/30 is not fair sharing – and as such is inconsistent with the Commission's obligations under clause 5.10 of the Tariff Order. Secondly, the Commission's approach to setting operating expenditure benchmarks will effectively reduce the shareholder's share of any efficiency gains to well below 30%.

Specifically, the inclusion of forecast *future* efficiency gains in the operating expenditure benchmark has the effect of immediately passing 100% of these unrealised gains to customers. If actual efficiencies are less than forecast, customers' share of any efficiency will exceed 100%. Furthermore, the Commission's proposed approach to "step changes" will prevent distributors from recovering legitimate increases in operating expenditure. These matters must be addressed by the Commission.

UED will continue to work with the Commission to ensure that the price review delivers appropriate outcomes for the company and its customers. The company urges interested

¹ Office of the Regulator-General, EDPR 2001-2005, volume 1, page XXI.

parties to re-examine UED's price-service offering and consider whether it offers a good deal for customers, as the company strongly believes it does.

1 Actual Reported Expenditure (Issues Paper chapter 2)

In the 2001-2005 determination, the Office of the Regulator-General stated that the expenditure benchmarks at this price review will use actual reported information as a starting point. . Although UED has consistently advocated the benefits of a more light-handed regulatory approach, the company has fully complied with the Commission's current regulatory approach. In particular, UED has made every effort to comply with the Commission's accounting guidelines, including those changes introduced for the 2003 Regulatory Statements.

In its *Issues Paper*, the Commission has raised a number of issues with regard to related party contracts. The Commission has focused on contracts between a distribution business and a related party for provision of services to the distributor that are required to meet the distributor's licence obligations. In particular, the Commission has commented that such contracts may prevent efficiency gains from being shared with customers. Instead, the Commission contends the cost savings could be retained in the related party, with the licensed entity and its customers paying higher charges as a result.

In responding to the Commission's concern, UED notes that out-sourcing to third party service providers is a principal tool for delivering efficiency gains, not only in the energy sector, but across a range of industry sectors. The regulatory framework, and the reform process more generally, has as a central objective the achievement of driving efficiency in relation to price and service quality. Consistent with this UED (and we believe the other distributors) have outsourced a range of activities through a range of commercial processes to both unrelated and related parties. We note that the Commission does not seek to limit the profits of the unrelated parties who carry out work for the distributors. It is essential that the Commission does not seek to eliminate related party profits. UED notes that the Issues Paper makes the following observation (*Issue 2.1*):

'The Commission seeks comment on whether the related parties of distributors should be able to retain any efficiency gains through distributors being able to value their contracts with such related parties at other than the total costs incurred by those related parties in performing those contracts (**including a reasonable allowance for profit**), or whether the gains should be returned to customers over time. If the gains should be returned to customers, what proportion of them should be so returned, and over what period of time?' (**emphasis added**)

UED supports the view that related parties should earn a profit for the services provided. In the absence of profit, outcomes will be both inefficient and inequitable. It would be a retrograde step if the Commission took the view that out-sourcing was an inappropriate activity, or established a framework which created disincentives for efficient outsourcing.

The *Issues Paper* implies that entering into contracts with related parties is inappropriate or inconsistent with the regulatory framework. UED strongly disagrees with this view. Related party transactions can provide greater assurances on service quality, whilst also providing the commercial discipline of a contractual relationship. Commercial disciplines drive the distributor to seek the best available price-service offering when contracts are negotiated or renegotiated, as well as meaning that the service provider must expect that they are able to make reasonable profits.

The means by which the distributors (as entities operating under corporations law) and the Commission can gain comfort that commercial arrangements with related parties are fair and efficient vary according to the particular circumstances. In cases where the relationship between the parties is only partial (less than 100% common shareholding) then it is the will (and legal responsibility) of the shareholders who do not have interests in the "related party" that will drive the optimal market outcome. In other cases, where 100% ownership is

involved a benchmarking approach has been appropriately adopted to ensure fair efficient transactions.

The *Issues Paper* comments that the value of the related party contracts as disclosed in the regulatory accounting statements is generally based on the benchmarks that were established during the last price review. It argues that this approach fails to disclose the actual efficient costs incurred in providing the service (as required by the regulatory accounting guideline and the Commission's methodology for determining price caps using the building blocks approach) and simply reports cost estimates based on the Commission's original benchmarks.

UED disagrees with the Commission's view. We point out that the costs reported in the regulatory accounts are the actual costs incurred by UED in carrying out its functions under its licence, and that those costs are efficient having been established through robust commercial processes, as discussed.

In UED's view, it is not unreasonable for a distributor to use the Commission's cost benchmarks as the basis for negotiating a contract with *any* service provider. The Commission's cost benchmarks were the result of detailed analysis by its consultants, which carefully scrutinised the companies' business plans. The Commission's benchmarks therefore provided a "unbiased" assessment of a "fair price" for particular out-sourced activities. Where such a contract has been agreed, that contract then determines the distributor's actual costs – and the distributor is required to report these costs.

It appears that the Commission's longer-term concern is that contracting with service providers on the basis of the Commission's benchmarks will not allow efficiencies to be passed-on to distribution customers. UED is confident that the company has a contracting structure and strategy that can deliver ongoing efficiencies that can flow to customers. UED does not believe that shareholders of the licensed entity would be properly served if contracts were not renegotiated on a fair and reasonable commercial basis. Over time, any efficiency gains will be reported through the new contract prices and passed on to customers in accordance with the Commission's regulatory pricing approach.

In summary, UED believes that it has acted in accordance with the regulatory pricing approach established by the Commission. The concept of out-sourcing is not new or peculiar to the electricity distribution sector. Instead, it is an important tool for delivering efficiency improvements in cost and service. It is disappointing that the Commission has now raised concerns regarding related party contracts when such arrangements have been in place and reported to the Commission for a number of years. More importantly, however, UED believes that related party contracts can, and do operate effectively within the Commission's regulatory pricing approach, and deliver benefits to customers as the framework intends.

2 Operating and Maintenance Expenditure (Issues Paper chapter 3)

The Commission's regulatory pricing approach relies on its incentive properties in order to establish operating and maintenance expenditure benchmarks for the forthcoming regulatory period. Specifically, the incentive arrangements reward operating cost efficiencies and, therefore, outturn costs provide a reasonable baseline for setting future operating expenditure benchmarks.

In its *Final Framework and Approach* paper, the Commission requested that the distributors' price-service proposals report three categories of forecast operating expenditure — base operating and maintenance costs, costs associated with the impact of growth, and step

changes arising from new (or changed) functions or legislative obligations. In addition, Distributors were invited to provide an appropriate “rate of change” in their operating expenditure proposals, which reflects *future* efficiency gains.

In its *Issues Paper*, the Commission commented that in a number of cases the “step changes” proposed by the distributors do not relate to new obligations or functions. For example, in relation to the OCEI safety regulations, the Commission notes:

“Given that the distributors’ requirements in regard to the OCEI’s safety regulations have not changed since 1999, it is unclear to the Commission why they should consider such costs are a step change, and why these costs should not already be reflected in the distributors’ base opex.”²

UED is concerned that the Commission’s approach to setting operating expenditure benchmarks does not meet the requirements of the Tariff Order. In particular, clause 5.10 requires the Commission “to ensure a fair sharing of the benefits achieved through efficiency gains between customers and the distributors.” In UED’s view to deliver a “fair sharing”, the Commission must ensure that the future operating expenditure allowance is a reasonable estimate of the costs that are likely to be incurred in the next regulatory period. The Commission’s approach fails this basic test on two fronts:

- The Commission’s narrow definition of “step changes” means that the Commission will disregard the costs of increasing work activities unless the increase is driven by a new obligation; and
- The Commission’s inclusion of a “rate of change” anticipates future cost efficiencies, and therefore reduces the share of any efficiencies that is retained by the business. In circumstances where actual efficiencies are below the anticipated level, customers will receive more than 100% of any efficiency gain. This does not reflect a “fair sharing” as required by the Tariff Order.

In essence, the Commission’s approach to step changes would only be appropriate if operating expenditure was in a *steady state*, so that operating costs did not need to increase over time. However, such *steady state* conditions only exist in textbooks and theoretical models. UED’s price-service offering explained why costs are expected to increase, even though obligations in some cases remain unchanged. In particular, the costs of meeting the company’s safety obligations depends on the interpretation of the regulations and the approach of the OCEI. It is noteworthy that interpretations (and hence the effective standard of compliance) can change over time, even though the regulations themselves may remain unchanged. In addition, better information regarding the condition of assets may lead to an increase in the volume of work, again with unchanged regulations.

In UED’s view, the Commission should assess objectively whether operating costs are likely to increase, and then set its operating expenditure benchmarks accordingly. It is not appropriate to disregard legitimate cost increases on the grounds that they do not conform to an unreasonably narrow definition of “step changes”.

UED also notes that the Commission’s approach to reflecting growing customer numbers in the operating expenditure allowance, an approach which UED supports, is inconsistent with its narrow definition of “step changes”. If the “step change” philosophy were applied to customer growth, the Commission would disregard the additional operating costs on the grounds that there has been no change in the service obligation. The Commission has

² Essential Services Commission, *Issues Paper*, page 37

rightly rejected such an approach on the issue of customer growth, and it is valid and equally important for the Commission to adopt the same approach to other operating expenditure components.

The consequence of disregarding legitimate operating cost increases is that the effective sharing of efficiency gains becomes very heavily skewed towards customers. The intention of the Commission's regime is to deliver a 30/70 sharing in favour of customers, even though a fairer sharing ratio would be 50/50. By ignoring legitimate operating expenditure increases, the Commission will further reduce the businesses' share of any efficiency gains to below 30%. As already noted, this would be inconsistent with the provisions of clause 5.10 of the Tariff Order.

3 Capital Expenditure (Issues Paper Chapter 4)

UED's price-service offering commented that a key feature of the incentive based regulatory regime established by the 2001 Determination is the incorporation of arrangements that encourage distributors to achieve and reveal efficient costs in the course of a regulatory period. UED provided examples of the efficiency gains that it delivered over the regulatory period. Furthermore, the submission also described the ways in which customers will benefit, over the course of the forthcoming regulatory period - and beyond – from the innovations and efficiency gains achieved by UED management over the 2001-2005 regulatory period.

UED's initiatives to deliver efficiency gains included:

- actions taken to achieve improvements in the network power factor, and hence to realise additional capacity from the existing asset base;
- adoption of probabilistic planning;
- implementation of the Distribution Management System (DMS);
- initiatives taken to economically defer demand-related capital projects;
- initiatives taken to economically defer some asset replacement works; and
- adoption of innovative approaches to improving quality of supply at costs well below those typically incurred in the industry.

Further details of these initiatives are provided in Chapter 5 of UED's price-service package.

Importantly, UED's submission further explained that the company delivered a level of reliability that was substantially better than that required by the performance benchmarks set in the 2001 Determination. (The performance improvements achieved by the company over the period are estimated to have delivered net benefits to customers worth approximately \$36 million to date.) This outcome demonstrates that the cost reductions achieved by the company over the 2001-2005 regulatory period have not come at the expense of service standards. We therefore consider that the incentive arrangements, along with other regulatory mechanisms have been effective in:

- providing safeguards against degradation of overall (or average) service levels by regulated companies that might otherwise pursue cost reductions at the expense of service quality; and

- providing an effective discipline on the distributors to meet or exceed their target levels of performance.

It is also noted that any detrimental impact on future service performance as a result of actions taken or not taken during the current regulatory period, will be subject to s-factor penalties in the forthcoming regulatory period. This contingent cost is borne by UED's shareholders, rather than customers, and provides a further safeguard that the company is focused appropriately on medium and long term service performance.

Against this background, UED is surprised by the following comments from the Commission in its *Issues Paper*:

"Where the underspend arises from the deferral of expenditure from the 2001-05 period into the 2006-10 regulatory period, the Commission would be concerned that the combination of the efficiency carryover mechanism and the expenditure benchmarks for the 2006-10 regulatory period over compensated distributors for the associated efficiency gain. It therefore intends to consider the appropriate treatment of deferred capex going forward, and in particular whether increased capex amounts associated with deferred expenditure should be removed from the expenditure projections for the next regulatory period. The Commission will be requesting more information from the businesses as to the extent to which expenditure projected for the 2006-10 regulatory period reflects expenditure deferred from the current regulatory period."³

In UED's view, the Commission appears to be assuming that deferral of expenditure is simply a costless re-scheduling of the company's investment plans without any discernable benefit to customers. In reality, however, UED's expenditure deferral has involved substantial management effort and the price-service package explains how customers benefit as a result of these efforts. UED believes that its deferral has been "economic" in the sense that it provides a net benefit, which should be shared fairly between customers and the company. The Commission has now flagged that it intends to reduce the company's share of this benefit.

Furthermore, even if the Commission's approach were reasonable in principle, it has severe practical limitations. In particular, it assumes that it is possible to distinguish between "deferral of capital expenditure" and "efficiency savings". The Commission's predecessor organisation, the Office of the Electricity-Regulator had previously considered a similar distinction between management-induced efficiency savings and "windfalls". This distinction proved unworkable, and UED expects that attempting to identify "deferral" will be equally problematic. We note that the Commission has made it clear that the price review process does not entail the approval of any individual capital projects, but rather sets an overall benchmark for the licenced entity. If there is no 2001 list of approved projects to reference to, it is difficult to see how the Commission will assess which of the undefined 2001 projects were deferred.

UED cannot support the Commission's proposed approach for the reasons outlined above. It would represent a fundamental shift in the regime that was established at the 2001 review, and would shift the onus of proof to the company to demonstrate that any capital expenditure savings were not the result of deferral. Not only is this unworkable and contrary to the framework that has been established, but it also denies the business a reasonable share of the resulting benefits. Moreover, if implemented, it would create a regulatory regime that encouraged all businesses to "spend to the benchmarks" determined by the regulator – an outcome not only fundamentally inconsistent with the notion of incentive based regulation, but one which would have the effect in practice of the regulator assuming management's role in making investment and expenditure decisions.

³ Essential Services Commission, *Issues Paper*, page 52.

In its *Issues Paper*, the Commission comments that the distributors have not clearly set out how their capital expenditure proposals relate to historical trends in capex, nor have they clearly discussed how their expenditure proposals relate to changes in functions, legislative obligations and/or asset management policies. UED strongly disagrees with the views expressed by the Commission on this matter. In fact, UED's price-service offering explains:

"In particular, UED has used capital expenditure models developed by PB Power (which apply cost drivers to estimate network capital expenditures) as a basis for validating and substantiating its benchmarks.

These models are based on historical and forecast information, thereby providing the explanatory link between actual and benchmark capital expenditure that the Commission wants to explore. The models can be calibrated with input assumptions that reflect the actual network cost drivers that existed over the 2001-2005 regulatory period and can produce a revised benchmark of capital expenditure for the period that is consistent with the company's actual level of expenditure. This provides substantiation of the models' capability to both explain past investment patterns, and to predict future investment requirements."⁴.

The rationale for using the PB Power models for substantiating and validating the benchmarks is that these models can appropriately relate historic expenditure to future benchmarks. An approach which simply assumes that future spend should be identical to historic spend is bound to be less valid because it takes no account of the assets to which the expenditure relates; or any changes in planning processes; or new data, including condition assessments.

UED believes that the Commission has a duty to consider the forecasts of actual expenditure requirements of the business, using appropriate modeling techniques and data. It is not appropriate for the Commission to pre-suppose that a simplistic relationship should persist between historic and future spending. It is also inaccurate to suggest that UED has not made every effort to meet the Commission's guidelines in relation to forecasting capital expenditure.

UED is also concerned that the Commission is considering adopting a 'sliding scale' mechanism for regulating capital expenditure, based on recent Ofgem initiatives. Although the OFGEM approach may be of interest, it is important that the Commission follows due process in considering possible changes to the existing regulatory framework. UED is concerned that apparently substantive issues, such as the regulation of capital expenditure and changes to the accounting guidelines, should be raised for the first time in the *Issues Paper*. UED believes that it is inappropriate for the Commission to raise this issue for public comment at this (advanced) stage in the price review process, and before bringing the issue to the attention of distributors. More generally, UED believes that the Commission should abide by the framework it has established, unless the framework is demonstrably flawed and inconsistent with its legal obligations.

UED believes that if the Commission was to proceed with either of the above proposals for the exclusion of deferred capital or the introduction of a sliding scale mechanism, the Commission will move further away from its stated goal of a more light handed approach to regulation, and the proposal to move to the TFP approach.

⁴ UED's, *Price Service Offering*, page 78

4 Cost of Capital (Issues Paper Chapter 5)

UED notes that the Commission perceives there are some outstanding issues relating to the cost of capital, and the company looks forward to debating these with stakeholders and the Commission.

UED notes that in the case of some cases parameters (eg. MRP, Beta and Gamma) the Commission is considering the question of what factors may have changed since 2001 to cause a change in the parameter values that were adopted by the Commission at the 2001 price review. One important change which has occurred since 2001 has been the emerging concerns of independent experts regarding the application of the regulatory regime. These experts have felt the need to re-emphasise the importance of regulators erring on the side of caution when exercising their discretion and in forming judgements, to ensure that adequate incentives for on-going investment are maintained. The Commission will be aware that a number of independent commentators (including the Productivity Commission) have noted that particular care is required in forming a view about the cost of capital, given the subjectivity and uncertainty associated with estimating key parameters.

In this respect, Prof. Stephen Gray's recent work attempts to place some rigour and objectivity around the issues of: methods for addressing uncertainty in the estimation of the cost of capital; and the need to encourage investment. UED looks forward to receiving the views of stakeholders and the Commission on this work.

There are several other issues that are also of note in relation to those factors (eg. gamma) that have changed since 2001, as the company's price-service offering highlights. UED intends to provide further evidence on these issues in due course.

Finally, the Commission has also drawn attention to the need to take into account other sources of evidence in relation to debt margins. In this regard, the Commission is encouraged to take into account the evidence provided by AGLE on this matter.

5 Efficiency Carryover (Issues Paper Chapter 6)

Within the context of "cost of service" regulation, UED believes that the efficiency carryover concept plays an important role in:

- ensuring that distributors have appropriate incentives in each year of the regulatory period to deliver cost efficiencies; and
- providing a "fair sharing" of efficiency gains between customers and shareholders.

As already noted, UED has consistently argued, however, that the 70/30 sharing implied by the efficiency carry-over does not provide for a fair sharing of efficiency gains. On this basis alone, the Commission's efficiency carry-over mechanism should be re-calibrated to deliver a 50/50 sharing. UED notes that OFGEM is considering reducing the share that is to be received by the businesses, and it appears that the Commission takes comfort from this development. However, the Commission is obliged to deliver "fair sharing" of efficiency gains in accordance with clause 5.10 of the Tariff Order, and this should be the primary driver in determining its approach.

It is also worth emphasising that allowing businesses to retain a reasonable share of efficiency gains is critical in encouraging gains to be achieved. Even if the Commission were not obliged to adopt a "fair sharing" approach, it would be in customers' interests to allow the company to retain a share of any gains made. In fact, moving towards a fairer sharing will increase the company's incentive to seek out further efficiency gains. The effect

will be to increase the size of the efficiency “cake” to be shared, presenting customers and company with a “win-win” outcome. UED notes that the 70/30 sharing is an artificial construct which provides a weaker incentive to seek out efficiency gains than would exist in a competitive market. Competitive markets, with exogenously set prices and revenues, allow 100% of efficiency gains at the margin to be retained by the company. It is important in this context that the Commission reconsider its current approach.

As noted in Section 2 of this submission, the Commission’s proposed approach to setting the operating expenditure benchmarks will not provide distributors with even a 30% share of any efficiency gain. Specifically, the inclusion of forecast *future* efficiency gains in the operating expenditure benchmark has the effect of immediately passing 100% of these unrealised gains to customers. If actual efficiencies are less than forecast, customers’ share of any efficiency will exceed 100%. Furthermore, the Commission’s proposed approach to “step changes” will prevent distributors from recovering legitimate increases in operating expenditure.

In summary, the Commission’s view that the efficiency carryover mechanism provides a 70/30 sharing is incorrect when consideration is given to how the operating expenditure benchmarks are set. It is important, therefore, that the efficiency carryover mechanism and the setting of operating expenditure benchmarks are considered together. In UED’s view, 50/50 sharing is more appropriate than 70/30. Moreover, the Commission’s approach as outlined in the *Issues Paper* is likely to deliver sharing even more heavily skewed towards customers than that implied by a 70/30 sharing ratio.

6 Demand forecasts (Issues Paper Chapter 7)

The *Issues Paper* comments that distributors have not followed the Commission’s guidelines in appointing an independent expert to determine the demand forecasts. In particular, the Commission comments that the distributors were required to demonstrate that the independent verifiers they used were sufficiently capable and had adequate expertise in undertaking verification processes. In addition, distributors were also required to provide to the Commission, and make publicly available, the scope of the work that the independent verifier was engaged for and the independent verifier’s proposal in response to the work scope.

UED’s view is that it has complied with the spirit of the Commission’s guidelines, even if the precise detail of all the requirements has not technically been satisfied. In particular, UED price-service offering commented that:

“UED believes that NIEIR has the necessary skills and experience to provide robust, reliable and independent demand forecasts. In particular, UED note that NIEIR has been retained to conduct independent forecast by the other Victorian distribution businesses and VENCORP. This provides further assurance to the Commission that the forecasting approach is consistent across the 5 distributors, and that each forecast is consistent with the aggregate forecast for the State. This is a highly preferred approach as it avoids a situation where distributors each forecast inconsistent “shares” of total state demand, using different methodologies. Such an outcome would have potentially presented the Commission and interested parties with a difficult task in “choosing” between competing approaches.”⁵

UED recognizes that demand forecasting is an important aspect of the review process. NIEIR and UED look forward to continuing to work with the Commission and its consultants to address any issues with regard to the demand forecasts presented.

⁵ UED’s, *Price Service Offering*, October 2004, page 152

7 Service Standards and performance measures (Issues Paper Chapters 8 and 9)

In its *Issues Paper*, the Commission commented that it was seeking proposals from the distributors in relation to service measures that may have become more important to customers over the current regulatory period, or for measures that may provide an early indication that issues are emerging with the reliability and/or security of the electricity supply. In relation to UED's proposed improvement in SAIDI, the Commission made the following observation:

"...distributors have provided little statistical evidence, or results from specific consultation on this issue, to support the view that Victorian electricity customers are prepared to pay a little more so that no customer experiences significantly worse reliability than the average customer."⁶

UED would like to remind interested parties that the company undertook an extensive customer survey, involving significant time effort and cost, in preparation for the previous price determination. The result of this consultation was reflected in UED's price-service offerings. The Commission's predecessor organisation, the Office of the Regulator-General, did not accept the results of the survey with little discussion or meaningful analysis of the work.

In view of the approach taken by the regulator at the previous determination, UED decided that a detailed customer survey would not carry much weight in the Commission's deliberations. Moreover, UED works with its customers on a daily basis, and through this day-to-day contact develops a good understanding of its customers' requirements. It is this day-to-day contact and understanding of our customers' needs that has informed UED's price-service offering.

In relation to reliability targets for the forthcoming regulatory period, the *Issues Paper* suggests that reliability targets should be tightened because distributors have "benefited financially" from the s-factor scheme in the current regulatory period. UED's price-service offering explained that past performance cannot be simply extrapolated into the future:

"In developing proposed reliability benchmarks for the 2006-2010 regulatory period, a further consideration is required of the impact that an increasing capital works program will have on customers, in terms of planned interruptions. UED's recent performance indicates that since the expansion of 'live line' practices in recent years, there is now minimal scope for further improvements in work practices to achieve further reductions in planned interruptions to customers. Future planned interruptions are expected to be driven far more by the increasing asset replacement and demand based capital workload than any potential improvements in work practices. Based on the past three years, planned customer minutes off supply vary by just under one minute for every \$2.5 million spent on the network for non-customer initiated works. An increasing workload over the 2006-2010 regulatory period will necessitate an increased number of planned shutdowns to deliver that program. Future planned SAIDI forecasts are based on this strong correlation between workload and planned shutdowns."⁷

In addition, measuring performance on an annual basis does not allow for the impact of external factors such as storms, periods of good weather or major events, which do not reflect the underlying performance of the network or the impact of factors within the company's control. UED is concerned that the Commission appears to be contemplating an

⁶ Essential Services Commission, *Issues Paper*, page 135

⁷ UED's, *Price Service Offering*, pages 41 and 42

approach to setting reliability targets that would have the effect of “clawing back” performance bonuses duly earned by the company in previous periods. Such an approach runs against the principles of incentive-based regulation.

8 Interval Meters (Issues Paper chapter 11)

As noted in the company’s Price Service Offering, and in previous submissions to the Interval Meter Roll-out Determination process, UED has raised a number of issues which it believes need to be addressed before firm proposals for the IMRO can be considered.

Given the ‘excluded service’ approach to the IMRO meter and meter data costs by the Commission, for the purposes of the EDPR UED has considered these functions as an appendix to, but separate from the price-service offerings to be considered. In providing information to the Commission on metering and metering services UED has used indicative costs and meter volumes based on information available at the time of the submission and has responded to the Commission’s information within its understanding of the Final Interval Meter Decision and the guidelines provided. The company has not pursued previously advocated positions such as a single versus two element meters. Further, the company has not ‘included meters for customers with annual consumption greater than 160 MWh per annum in its metering price control’ as assumed by the Commission on page 198 of the *Issues Paper*; it has merely stated the number of these installations that exist. UED’s submission is not a metering price control; it is a list of indicative prices and volumes.

UED believes that in order to progress the IMRO process the Commission must as a matter of urgency establish a number of working groups to consider and resolve outstanding regulatory and implementation issues. UED looks forward to working constructively with the Commission and the rest of the industry in such forums.

Response to ESC Issues – Part B

Actual Reported Expenditure

Issue 2.1	UED's Response
<p>The Commission seeks comment on whether the related parties of distributors should be able to retain any efficiency gains through distributors being able to value their contracts with such related parties at other than the total costs incurred by those related parties in performing those contracts (including a reasonable allowance for profit), or whether the gains should be returned to customers over time. If the gains should be returned to customers, what proportion of them should be so returned, and over what period of time?</p>	<p>Out-sourcing is a principal tool for delivering efficiency gains, not only in the energy sector, but across a range of industry sectors providing greater assurances on service quality, coupled with the commercial discipline of a contractual relationship. United Energy Distribution (UED) believes that related party contracts can, and do operate effectively within the Commission's regulatory framework, and deliver benefits to customers as the framework intends. For the effectiveness of outsourcing to continue, service providers must also be able to share in the benefits derived.</p> <p>Efficient outsourcing will only occur if the companies providing the services can gain the benefits of their efficiency. In a commercial marketplace businesses make profits based on the extent their costs beat the price that they are able to negotiate with their customers, for as long as they can beat the market negotiated price. Such profits are not impacted by a regulator's forensic process to measure historical efficiencies. There is no reason why a service provider who is a related party should necessarily disadvantage relative to one who is not related.</p>
Issue 2.2	UED's Response
<p><i>The Commission seeks comment on whether the IT expenditure allocated to CitiPower's retail business should be transferred to its distribution business on the sale of its business.</i></p>	<p>UED offers no comment on this issue</p>

Operating and Maintenance Expenditure

Issue 3.1	UED's Response
<p><i>The Commission seeks the views of stakeholders on the appropriateness and reasonableness of the step changes.</i></p> <p><i>In particular, stakeholders are asked to consider:</i></p> <p><i>Firstly, whether the cost imposts identified by the distributors are in fact 'step-changes' reflecting new obligations and functions that will arise in the 2006-10 regulatory period noting that obligations and functions arising in the current regulatory period are already reflected in the distributors' base opex.</i></p> <p><i>Secondly, if so, whether the amount of expenditure, that is, the cost impost identified by the distributors for each step change, is reasonable in order to fulfil the associated responsibilities arising from the step changes. To this extent, stakeholders are also asked to comment on whether they consider that the new obligations or functions, identified by the distributors, will in fact impose a financial cost impact on the distributors in the 2006-10 regulatory period.</i></p>	<p>UED has itemised and fully costed all step changes in its Price Service Offering. UED will work cooperatively with the Commission and its consultants to provide further information where appropriate. In addition UED is considering those step changes proposed by the other distributors to determine whether they are applicable to UED.</p> <p>Refer to UED's covering submission for additional details.</p>
Issue 3.2	UED's Response
<p><i>The Commission seeks the views of interested parties on the appropriateness of the rates of change proposed by the distributors. Stakeholders are asked to consider the assumptions that this approach is based on, particularly that operating and maintenance costs are recurring and should reflect increases in productivity due to technological and other advances.</i></p> <p><i>The Commission also seeks the views of interested parties with regard to the appropriateness and applicability of the methodology adopted by TXU to determine its forecast operating and maintenance expenses for the 2006-10 regulatory period.</i></p>	<p>Please refer to UED's covering submission.</p> <p>UED offers no comment on this issue</p>
Issue 3.3	UED's Response
<p><i>The Commission seeks comments on the growth assumptions and forecasts adopted by the distributors.</i></p>	<p>Please refer to UED's covering submission.</p>

Capital Expenditure

Issue 4.1	UED's Response
<p><i>The Commission is interested in understanding better the precise nature of the projected expenditures associated with OCEI requirements, and the need for such expenditure given that there has been no change in the underlying obligations.</i></p>	<p>The Commission suggests that, with the exceptions of sections 111/113, there has been no relevant change to the Electricity Safety Act 1998 or the relevant regulations since 1999 and thus the literal obligations on, and exposure of distributions is the same as during the 2001-05 period.</p> <p>While UED accepts that there has been no formal change to the wording of the Act and regulations, the interpretation of that wording by the OCEI has changed from 'practical' to 'literal' compliance. The very fact that the OCEI sought changes to the Act in the form of sections 111/113 confirms that there were conflicts between the initial wording and the OCEI approach to administering the Act.</p> <p>The 1999 changes, while allowing some initial transitioning period, have meant that all affected installations, irrespective of their installation date, are now required to comply with the requirements of the current regulations. This conflicts with past practice where installations, unless identified as high risk, have been brought into conformance with current regulations at the time of modification or replacement. In practical terms, in the high cost area of service conductors, fully implementing the 1999 changes would require UED to raise the height of some 290,000 service lines, even though many of these lines are in locations where they have existed for decades, and have never been subjected to any form of damage as a result of their height or location.</p> <p>UED's submission to this EDPR reflects the cost to UED of continuing the current approach to achieving compliance with the 1999 ESNAR and the ESELC regulations; that is, in the case of services, continuing to replace non-conforming services on a priority basis as discussed above. This approach is consistent with the ESMS lodged with the OCEI by UED in 2003, however it relies on the OCEI endorsing UED's approach as being compliant with, and fulfilling its obligations under the Act and regulations.</p>

<p>Issue 4.2</p>	<p>UED's Response</p>
<p><i>The Commission is interested in receiving more information on the changes expected in environmental obligations and the differences in expenditure projected, compared to the current period.</i></p>	<p>UED notes four examples of changing environmental obligations:</p> <ul style="list-style-type: none"> • Allowed sound pollution that can be emitted by our assets, particularly our zone substations has been lowered. • Some old Zone Sub Stations have insufficient oil bunding for the transformers, and don't meet current standards. • Requirement for mobile oil bunding units for both our existing 22kV mobile TX and our proposed 11kV mobile TX. • A large amount of EMF work is being performed in the UK. It is expected that this work will result in lower tolerance levels will be introduced bringing with it additional cost for re-configuration of a number of our assets. <p>UED will work cooperatively with the Commission and its consultants in providing further substantiation of these increases</p>
<p>Issue 4.3</p>	<p>UED's Response</p>
<p><i>The Commission is interested in views on whether there are any factors which should lead it to reconsider its earlier position on the appropriate funding for undergrounding.</i></p>	<p>The Commission's position adopted during the 2001-05 EDPR on undergrounding expenditure was, in part, that such expenditure should not be allowed as there was no sound basis for requiring all customers to contribute to the cost of a project that benefits particular customers.</p> <p>UED is concerned that the ESC should approach the issue of the UED undergrounding proposal in this price review from an appropriate perspective. It is not the commission's role to decide exactly how undergrounding should or should not be addressed by a business, nor should the Commission be opining on the pinpoint perfect pricing treatment from a customer equity perspective. Such an approach by the Commission would involve both stepping into the shoes of management, and taking on an impossible task – either of which would ensure that undergrounding will not proceed in the near future.</p> <p>Rather the Commission's role should be to test whether UED's choice to commence an undergrounding in the way we have chosen is unreasonable.</p> <p>UED sees undergrounding as a long-term issue that the company has chosen to commence addressing at this time rather than to defer another 5 years. The size of our undergrounding program will have only a minimal impact on customer prices and importantly will not cause a price increase, but rather a lesser decrease. Further the size of the UED program sees well less than 1% of the assets being replaced each year, implying a program that will take several hundred years to complete at the current rate which is hardly excessive. Whilst the urgency for undergrounding is not acute, public opinion can grow quickly and the answer of "we've done nothing to date" will not be looked on favourably. UED would prefer to answer: "we see it as an important issue, and have made a start on the long-term program, but you must realise it is a long- term program."</p>

Issue 4.4	UED's Response
<i>Is a higher level of security of supply in the CBD appropriate? Do the benefits of a higher security of supply justify the proposed level of expenditure and is the associated expenditure reasonable? What information should the Commission have regard to in assessing this proposal?</i>	UED supports the concept of a higher level of security of supply to critical infrastructure including hospitals, major suburban centres, etc, not only the CBD. Each instance needs to be considered on a individual basis and in terms of agreed supply quality, security and reliability criteria.
Issue 4.5	UED's Response
<i>Are the proposed increases in expenditure for infrastructure security reasonable?</i>	<p>UED believes that the proposed increase for infrastructure security are reasonable and reflective of the company's risk profile. Broadly potential threats can be classified in four key areas of motivation:</p> <ul style="list-style-type: none"> • Terrorism: generally includes 'an act but not limited to the use of force or violence on influencing any government and / or to put the public, or any section of the public, in fear. • Criminal threat: is generally profit driven. Methods of operation include fraud, theft, robbery, sabotage or extortion • Malicious threat: generally includes vandalism or disclosure. A malicious act is a direct attack on the targeted organisation's assets, and is motivated by revenge, fame association or challenge. • Asset Failure: generally includes an incident(s), which may or may not have had a third party intervention, or environmental influence, and results in the interruption of supply to customers <p>UED has developed comprehensive critical infrastructure protection plans and it is important to reflect all these risks into the Company's expenditure plans.</p>
Issue 4.6	UED's Response
<i>The Commission seeks comment from interested parties on the appropriateness of AGLE's inclusion of costs relating to the Road Management Act in their capital expenditure forecasts.</i>	UED has no comment on this issue
Issue 4.7	UED's Response
<i>Is additional capital expenditure required by the distributors to meet new safety requirements?</i>	The Commission is correct in noting that UED is already incurring some expenditure on safety requirements, in particular CMEN, however UED forecasts a material increase in expenditure (to \$3.6m in the case of CMEN) in order to meet its obligations. Existing expenditure levels will be reflected in the 2004 Regulatory Accounts.

Issue 4.8	UED's Response
<i>The Commission seeks comments from stakeholders on the extent to which the specific proposed additional expenditure set out in this section are reasonable.</i>	<p>UED has proposed a Technology Development Fund and to implement a policy for minimising the number of poles in roadways to a total of \$5m.</p> <p>UED supports the inclusion of specific funds to be employed to deliver additional benefits to customers in terms of service reliability and quality and environment, benefits that are unlikely to be obtained unless there is an adequate incentive for the businesses to pursue them. UED has proposed a governance arrangement to monitor spending and would welcome further discussion with the Commission on this matter. UED notes that Ofgem in its Final Decision proposed an Innovation Funding Incentive of 0.5% of revenues 'use it' or 'lose it', to encourage investment in R&D.</p> <p>See also comments relating to undergrounding, above. We re-iterate the importance of the Commission avoiding seeking a pin-point right answer on this issue. It is not the Commission's program to assess in that way. Rather it is UED's program and the Commission's only to test if the program is unreasonable.</p>
Issue 4.9	UED's Response
<i>The Commission is interested in receiving further information from the distributors in relation to their asset management plans and processes and how these relate to their capex projections.</i>	UED will work with the Commission and its consultants to provide additional information relating to its approach to asset management planning and associated capital projections.
Issue 4.10	UED's Response
<i>The Commission, in conjunction with its technical consultants, will review the appropriateness of the distributors' proposed capital expenditure given the forecasts of demand, utilisation and weighted average remaining life.</i>	UED will work with the ESC and its consultants in their review of proposed capital expenditure.
Issue 4.11	UED's Response
<i>The Commission seeks comment from stakeholders on the appropriateness of excluding the costs associated with the connection of wind farms from the 2006-10 capital expenditure requirements of the distributors.</i>	UED has no comment on this issue.
Issue 4.12	UED's Response
<i>The Commission seeks comment from stakeholders on the forecasts of capital expenditure for customer initiated connections, and forecasts of customer contributions.</i>	<p>UED calculation of contributions is in accordance with the Commission guidelines. In particular the benchmark for customer contributions is based on:</p> <ul style="list-style-type: none"> • PB Power model outputs for the level of CIC used for developing forecasts; and • Fully customer-funded works are excluded from the customer contributions benchmarks (and are also excluded from CIC benchmarks).

Issue 4.13	UED's Response
<p><i>The Commission seeks comment from stakeholders on the UK approach to this issue and the merits of the Commission implementing a similar mechanism for this or subsequent price reviews.</i></p>	<p>The Commission has outlined an approach adopted by Ofgem in its recent decision on Distribution Price controls where a 'sliding scale mechanism' is to be used to set the allowed expenditure and efficiency incentive based upon a ratio of the distributor's expenditure and a benchmark established by Ofgem's consultants.</p> <p>While UED has not fully assessed the Ofgem proposal, it is concerned that such an approach revisits the regulatory regime established in the EDPR process and will extend the level of 'spreadsheet-based' regulation in future reviews, inconsistent with their stated direction of moving to more light handed regulation (e.g. TFP)</p> <p>Further, UED believes that it is inappropriate for the Commission to raise this issue for public comment before bringing the issue to the attention of distributors.</p> <p>UED believes that the commission must continue to conduct this EDPR process within the framework and approach already established.</p>

Cost of Capital

Issue 5.1	UED's Response
<i>The Commission invites stakeholders to comment on the distributors' proposal that the value of the equity (market risk) premium should increase. In providing comment, the Commission asks stakeholders to identify what new perspectives or insight into the estimation of the equity (market) risk premium have occurred since the 2001 determination that would justify an adjustment.</i>	UED's arguments in support of its proposed WACC are set out in its Price Services Offering. For the purposes of this response UED re-emphasises the position of independent commentators (including the Productivity Commission) regarding the importance of regulators erring on the side of caution when exercising discretionary judgements with respect to WACC, given the subjectivity and uncertainty associated with estimating key parameters, to ensure that adequate incentives for on-going investment are maintained.
Issue 5.2	UED's Response
<i>The Commission invites stakeholders to comment on the distributors' proposal that the value of the equity beta should change. In providing comment, the Commission asks stakeholders to consider what changes have occurred since the 2001 determination to justify a change. The Commission invites comment on the relative weight to be attached to the different methods of estimating the equity beta, and the range of estimates provided by the different methods.</i>	As above
Issue 5.3	UED's Response
<i>Given the experience to date, the Commission invites stakeholders to comment on whether rural distributors face greater non-systematic risk than their urban counterparts.</i>	UED has no comment on this issue.
Issue 5.4	UED's Response
<i>The Commission invites comment on whether it is appropriate to use CBA Spectrum Data when determining debt margin estimates? When determining the debt margin, what other data should the Commission refer to?</i>	UED supports the use of the CBA Spectrum Data.
Issue 5.5	UED's Response
<i>The Commission invites stakeholder comment on whether debt raising costs should be included in the debt margin. If so, what information should the Commission have regard to when determining an appropriate cost?</i>	In a review by the Allen Consulting Group on Queensland Distribution Network Providers in December 2004 debt issuance costs in Australia were examined. The Victorian ESC made an allowance of such costs (5.0 basis points (bppa)) in its review of Gas Access Arrangements. In addition, the ACCC has adopted standard practice of using a transaction cost of 12.5 bppa for entities with a BBB credit rating. In an appeal to the ACT Gas Net achieved a 25 bppa. The Allen Group recommended a 12.5 bppa for Queensland DNSP's. UED would support using the CBA Spectrum margin (for 10-year bonds) which is the term consistent with the other WACC variables.

Issue 5.6	UED's Response
<i>The Commission invites stakeholder comment on whether an allowance for equity raising costs should be included. If so, what information should the Commission have regard to when determining an appropriate allowance?</i>	Given debt raising costs have been included by a number of regulators it would be reasonable to include equity raising costs on the basis of consistency.
Issue 5.7	UED's Response
<i>The Commission invites stakeholder comment on whether there are new insights on the value of franking credits since 2001 sufficiently robust to suggest that the value of franking credits has shifted from 0.5.</i>	Any evidence of a change suggests that it is zero. In a review of Gamma in late 2003 Professor Stephen Gray concluded that “ in summary the most comprehensive and persuasive empirical evidence suggests that for a number of large Australian companies with significant foreign ownership, imputation credits are effectively worthless to the marginal investor, at least since the introduction of the 45-day holding period rule made it more difficult to transfer these credits. ... For large Australian companies, the available evidence is consistent with setting gamma equal to zero.

Efficiency Carryover

Issue 6.1	UED's Response
<i>The Commission invites stakeholder comments on the possible incentive impacts of a capital expenditure growth adjustment on distributor uptake of demand side management solutions and on the approach to calculating the impact of additional new customers on DRR capital expenditure.</i>	Until such time as the Commission provides further consultation on this issue UED does not support further adjustments and dilution of the efficiency carryover mechanism

Demand Forecast

Issue 7.1	UED's Response
<p><i>The Commission invites stakeholder comment on whether the distributors' forecasts are reasonable. In particular, the Commission seeks comment on whether there is reason to suggest that the distributors' forecasts either over- or under-state growth in customer numbers, electricity consumption and/or peak demand?</i></p>	<p>UED believes their forecast of peak demand is reasonable for the following reason:</p> <p>Load growth forecasts carry a degree of uncertainty in predicting both the economic conditions and the summer weather. The degree of uncertainty increases as one moves from the bulk supply terminal stations into zone substations, then HV feeders, then distribution substations and finally LV feeder levels. This combined with the UED's already high network utilisation cautions that a high growth scenario with 10th percentile POE should be adopted to avoid the situations which have occurred in Western Australia, NSW and Queensland in recent years where demand outgrew supply capacity. Use of medium growth scenario with 50th percentile POE may be considered acceptable for the main transmission system and supply point terminal stations, as the loading at this level is not very sensitive to variations in customer demand.</p>

Service Standards

Issue 8.1	UED's Response
<i>The Commission seeks comment as to the service measures against which targets should be set for the 2006-10 regulatory period.</i>	<p>UED believes that the reliability service measures submitted as part of the company's Price Service Offering form an appropriate set of indicators going forward.</p>
Issue 8.2	UED's Response
<i>The Commission seeks comment as to whether there are other reliability measures which the distributors should be required to report against.</i>	<p>UED has not identified, or been made aware of any additional indicator that could be cost-effectively monitored to benefit either the business or its customers in achieving long term sustainability of a reliable and secure electricity supply.</p>
Issue 8.3	UED's Response
<i>The Commission seeks comment on the reliability targets proposed by the distributors, considering the distributors' actual performance and expenditure requirements. Should the targets be reduced where the distributor has consistently outperformed the targets during the 2000 to 2003 period, or should the reliability targets be maintained?</i>	<p>Since the inception of the reliability targets, UED has achieved significant improvements in service reliability to its customers. As stated in our Price Service Offering, UED believes that there is very limited scope for further substantial reliability improvements to be delivered cost-effectively.</p> <p>UED has based its proposed targets and expenditure requirements on its experience, knowledge and understanding of the network and environment in which it operates on a daily basis. It would be inappropriate for the Commission to usurp UED's managerial obligations by imposing performance and expenditure requirements, which the business does not support as being realistic and achievable. Further, any arbitrary amendment to targets would run counter to the Commission's initial proposal that generally the 2005 reliability targets should be adopted as the starting benchmarks for the 2006-2010 period.</p>
Issue 8.4	UED's Response
<i>The Commission seeks comment as to whether the targets for planned SAIDI should increase as proposed by TXU and United Energy, or whether they should be more consistent with the targets for planned SAIDI as proposed by AGLE, CitiPower and Powercor.</i>	<p>As stated in our Price Service Offering, UED's believes that there is minimal scope for further changes in work practices to achieve further reductions in planned shutdowns. Given the increasing work program proposed, UED anticipates that an increase in the planned SAIDI forecasts for 2006-2010 is necessary. Again these forecasts are based on UED's experience, knowledge and understanding of the network and environment in which it operates and any adjustment to the proposed targets would be inappropriate.</p>

Issue 8.5	UED's Response
<p><i>The Commission seeks comment as to whether momentary interruptions should continue to be defined as interruptions of duration less than one minute or whether the definition should be amended to include interruptions of duration less than three minutes. Alternatively, should the data be collected on the basis of both definitions during the 2006-10 regulatory period to enable targets to be set based on a three minuted definition for the 2011 regulatory period?</i></p>	<p>As discussed in section 4.4.3 of our Price Service Offering UED supports amending the definition of momentary interruptions from 'less than one minute' to 'less than 3 minutes'. This would align with definitions applied in many areas of the USA and the CENELEC European standard EN50160, while allowing greater scope for distributors to pursue practical technical and operational solutions to minimise both momentary and short duration incidents. An increase from one to three minutes duration is unlikely to impact most customers.</p> <p>[UED would be concerned at the cost effectiveness of data collection of both 1 and 3 minute faults over a further regulatory period.]</p>
Issue 8.6	UED's Response
<p><i>The Commission seeks comment as to the extent to which Victorian electricity customers are prepared to pay for improvements to the average reliability and the extent to which Victorian electricity customers are prepared to pay more so that fewer customers experience significantly worse reliability than the average customer, as proposed by the distributors. Are customers prepared to pay for the enhanced offerings proposed by CitiPower and Powercor?</i></p> <p><i>Should customers fund improvements in the average reliability through the revenue requirement, as proposed by the distributors, or the service incentive arrangements? Should customers fund improvements in the reliability for the worst served customers through the revenue requirement, as proposed by the distributors, or through the service incentive arrangements?</i></p>	<p>While UED has not undertaken a specific survey of customer attitudes for this EDPR, as the Commission is aware it did seek customer input to the price-service packages offered in 2000. Generally this input indicated some level of willingness to pay for service improvements, however UED accepts that WTP will vary with individual customer supply situations and customer needs.</p> <p>UED's submission to this EDPR has focussed on improving average performance by improving the performance of poorly performing feeders while maintaining performance in other areas.</p> <p>UED believes that it is appropriate to recover these associated costs through the revenue requirement, rather than relying exclusively on the incentive properties of the S-factor to drive investment decisions.</p>
Issue 8.7	UED's Response
<p><i>The Commission seeks comment as to whether the quality of supply measures against which the distributors report are appropriate. Given the availability of historical data, should targets be set for the quality of supply measures for the 2006-10 regulatory period?</i></p>	<p>UED believes that current reporting of voltage fluctuations with respect to Distribution Code requirements is appropriate, and will work with the Commission to establish appropriate targets for the 2006-2010 period, as well as explore other possibilities as data becomes available.</p>
Issue 8.8	UED's Response
<p><i>The Commission seeks comment as to whether customers are prepared to pay for the proposed improvements in the quality of supply. Would customers prefer to pay for improvements in quality of supply through the revenue requirement or through the service incentive arrangements?</i></p>	<p>UED makes no comment on this issue.</p>

Issue 8.9	UED's Response
<i>The Commission seeks comment as to whether customers are willing to pay for AGLE's, CitiPower's and Powercor's enhancements to the management and settlement of voltage variation claims. Is the additional expenditure sought for these enhancements considered to be appropriate? Should TXU and United Energy similarly enhance the management and settlement of voltage variation claims?</i>	UED estimates that it will require a further \$1.0m pa in addition to the benchmarks offered in the Price Service Offering in order to settle the voltage variation claims proposed by AGLE, Citipower and Powercor.
Issue 8.10	UED's Response
<i>The Commission seeks comment as to whether the call centre performance measures proposed by CitiPower, Powercor and TXU are appropriate. Should the same call centre performance measure be adopted by each of the distributors? Should targets for call centre performance be established for each of the distributors? Are the targets proposed by CitiPower, Powercor and TXU appropriate, given their current level of performance? Should the same target be established for each of the distributors? Are customers prepared to pay more to increase the target to 85 per cent?</i>	UED maintains its position stated in the Price Service Offering that it does not support the inclusion of call centre performance at this time. UED has not priced the cost of any call centre improvement into the company's offering, Further UED supports a watching brief over the course of 2006-2010 to monitor performance and collate relevant data, to facilitate the introduction of new measures if this is found to be necessary in the future.
Issue 8.11	UED's Response
<i>The Commission seeks comment as to whether there is a customer service measure that can be used to measure the distributors' performance in relation to the timeliness and accuracy of information provided by distributors that is required for the transfer of a customer to a new retailer. Are there any other customer service measures which the distributors should be required to report against? Should targets be set for the other customer service measures?</i>	UED considers this issue to be a matter between distributors and retailers, and is adequately provided for in other regulations and transfer procedures.
Issue 8.12	UED's Response
The Commission seeks comment as to the appropriate thresholds for reporting low reliability feeders.	UED believes that the current comparative report which includes a report on all feeders (highlighting the worst performed feeders) is appropriate.

Service Incentive Mechanisms

Issue 9.1	UED's Response
<p><i>The Commission seeks comment as to whether customers value a financial incentive for the distributors to meet their targets for planned SAIDI. Given the relative value customers place on planned interruptions and unplanned interruptions, and noting the safety concerns with a planned SAIDI target, should the measure be included in the S-factor scheme as a separate measure, included in the S-factor scheme within a total (planned and unplanned) SAIDI measure, or removed from the S-factor scheme?</i></p>	<p>UED's Price Service Offering argues for planned SAIDI to be removed from the s-factor scheme. Increasing work programs and a lack of viable work practice changes to enable such works to be undertaken in a 'live' situation is expected to lead to an increase in planned SAIDI.</p> <p>UED believes that a considered approach to work planning, including adequate notification and consultation with affected customers, will provide better outcomes for customers, employees and the business overall, than an artificially conceived incentive target. UED has argued that customers do not place a high value on planned shutdowns as they do for unplanned shutdowns. The company's Price Service Offering reflects this position. Further UED has also proposed a new GSL for those customers not given adequate notice in planning for shutdowns.</p>
Issue 9.2	UED's Response
<p><i>The Commission seeks comment as to whether call centre performance is valued highly enough by customers to be included as a service measure in the S-factor scheme.</i></p>	<p>While UED would accept that call centre performance measures is of interest to some customers, it is unlikely to be considered of such importance as to pay a financial incentive to distributors to improve.</p> <p>It is UED's experience that large customers do not have an issue with time to answer calls – rather their concern is what information is provided regarding the incident and how long before restoration of supply.</p>
Issue 9.3	UED's Response
<p><i>The Commission seeks comment as to whether the S-factor scheme should continue to be based on average reliability or whether it should be more targeted, similar to that proposed for South Australia.</i></p>	<p>UED has argued in its Price Service Offering for minimal change to the s-factor scheme. It does not support a change away from 'average' to 'targeted' reliability as this represents a fundamental change to the incentive regime as it currently applies. UED believes that adequate provision can be made for 'targeted' performance through the GSL regime which was introduced for that purpose.</p>
Issue 9.4	UED's Response
<p><i>The Commission seeks comment as to the appropriate incentive rate to reflect what customers are prepared to pay for reliability improvements. Should the incentive rate be based on the existing, the current cost of reliability improvements, the Value of Customer Reliability (VCR), or some other incentive rate? If the incentive rate is increased, should a lower rate apply within the "normal" band of reliability or should there be a deadband consistent with this "normal" operating band? If a lower rate is applied within the "normal" band of reliability, what should the lower rate be based on? Is it appropriate to use the South Australian customer research to weight the reliability service measures?</i></p>	<p>UED does not believe it is appropriate to adopt the South Australian research until such time as sufficient consultation has taken place to determine whether it is appropriate for Victoria. UED is prepared to work with the Commission and its consultants to determine the appropriateness of the alternatives suggested by the Commission.</p>

Issue 9.5	UED's Response
<p><i>The Commission seeks comment as to how the Commission should determine the value that customers place on call centre performance. Should the incentive rate for call centre performance be based on the results from the South Australian willingness to pay study?</i></p> <p><i>Should the call centre performance measure be incorporated in the S-factor scheme as proposed by TXU, or in a similar way to the measures for reliability?</i></p>	<p>As noted earlier, UED does not support the inclusion of call centre performance in the incentive scheme at this time.</p>
Issue 9.6	UED's Response
<p><i>The Commission seeks comment as to the appropriate targets for the service measures for the purposes of the S-factor scheme. Should these be the same as those established for reporting and monitoring purposes, or should they be lower or higher?</i></p>	<p>As argued in our submission to the EDPR, UED sees no reason to modify the existing incentive rates for the individual measures. This includes the move from CAIDI to SAIDI proposed by the Commission which UED considers can be weighted based on the previous CAIDI weighting, without affecting the balance of the scheme.</p>
Issue 9.7	UED's Response
<p><i>The Commission seeks comment as to whether the threshold for the payment of GSLs for reliability should be reduced and, if so, whether such reduction should be as proposed by the distributors or on the basis indicated by the Commission's analysis. Should the GSL payments be as proposed by the distributors, or should there be a multiple level GSL, that is an initial payment if the first threshold is exceeded and subsequent payments as subsequent thresholds are exceeded? Should there be a GSL payment based on MAIFI? Should improvements in reliability for the worst served customers be funded through the expenditure component of the revenue requirement or through the GSL payment component of the revenue requirement?</i></p>	<p>UED has proposed variations to the GSL scheme as part of the overall price-service package submitted. UED believes the package as submitted meets the needs of its customers.</p> <p>UED does not support a MAIFI based GSL payment.</p> <p>UED's response to the final part of this issue is set out in the response to Issue 8.6.</p>
Issue 9.8	UED's Response
<p><i>The Commission seeks comment on what is an appropriate appointment window. Are the current appointment windows proposed by the distributors reasonable, or, based on experience with distributors to date, to what extent would customers value an obligation on the distributors to specify an appointment window not greater than 1 hour, 2 hours or a half day?</i></p> <p><i>If the appointment window was reduced to no longer than 1 hour or 2 hours, what would be the cost impact?</i></p>	<p>UED believes that the current width of appointment windows is well targeted to capture poor service delivery and does not require a change. Further, UED notes that proposed B2B procedures to be introduced during 2005 do not specifically cater for appointments. Any material changes to current arrangements are likely to have cost implications.</p>
Issue 9.9	UED's Response
<p><i>The Commission seeks comment on what is an appropriate connection time. Are the reductions in connection times specified by the distributors reasonable? If not, why not? Should the distributors be provided with additional funding for a reduction in the connection time given that some of them already appear to be meeting reduced connection times?</i></p>	<p>UED's proposed connection time GSL forms part of the overall price-service package submitted. UED believes the package as submitted meets the needs of its customers and is within the capabilities of the business to deliver.</p> <p>UED meets current regulatory requirements of 20 days and has proposed an improvement to 15 working days.</p>

Issue 9.10	UED's Response
<i>The Commission seeks comment as to whether it is appropriate to continue the GSL payment for public lighting and, if so, at what level. If the GSL payments for public lighting continue, how can the Commission ensure that the distributors are not required to make payments where they are not responsible for operating and maintaining the public lights?</i>	UED supports the continuation of the public lighting GSL, however as public lighting becomes more contestable, the Commission through regulation must transfer responsibility for the GSL to the owner of the assets.
Issue 9.11	UED's Response
<i>The Commission seeks comment as to whether customers would value the inclusion of a GSL payment of \$20 where four business days notice is not given for a planned interruption. Should the GSL payment be based on a different length of notice, or should it be based on the receipt of the notice? If the GSL payment is based on receipt of the notice, how can this be measured?</i>	UED has proposed a GSL based on the failure to give notice for a planned interruption as part of its price-service submission. Delivery of the notice would be taken as having occurred when bulk notice deliveries are undertaken as part of the shutdown preparation.
Issue 9.12	UED's Response
<i>The Commission seeks comment as to whether distributors should be required to make GSL payments to customers with annual consumption greater than 160MWh. Do these customers value receiving payments of \$80 when the reliability is worse than the thresholds?</i>	As stated in our Price Service Offering , UED does not support the payment of GSLs to greater than 160MWh customers. UED believes that by concentrating its efforts on poor performing feeders and reducing the level of momentary interruptions, and improving the quality of supply the benefit delivered to larger customers through achieving such improvements will outweigh any financial benefit that might be delivered through a GSL payment. It is UED's experience that large customers value an improvement in service greater than a monetary payment in the form of a GSL.
Issue 9.13	UED's Response
<i>The Commission seeks comment as to whether an operational measure should be included in the service incentive arrangements. If an operational measure is included in the service incentive mechanisms, what form should it take? Are there any other measures that should be incorporated in the service incentive arrangements to address the Commission's concerns in relation to the reliability in the long term?</i>	UED believes that there are sufficient mechanisms in place including Asset Management Plans, Electricity Safety Management Schemes and regulatory audits, together with a range of regulations, guidelines and Codes of Practice, which drive reliability requirements now and into the future. UED does not see the need for any additional service incentive measures at this time.
Issue 9.14	UED's Response
<i>The Commission seeks comment as to whether an incentive on the distribution loss factor should be included in the service incentive mechanisms. If an incentive on the distribution loss factor is included in the service incentive mechanisms, should it take a similar form to the UK mechanism? How should losses be valued?</i>	UED believes that before this matter can be considered for inclusion there needs to be detailed discussion held with distributors as to the scope, content and application of such a measure.

Issue 9.15	UED's Response
<p><i>The Commission seeks comment on an appropriate quantitative criterion for excluding rare events from the service incentive mechanisms. Should the criterion be based on SAIDI, SAIFI or the proportion of customers impacted? Should it be based on a simple threshold (for example 3 minutes or 7 minutes), or should it be based on a more statistical approach as proposed by TXU? Would the criterion appropriately exclude abnormal events? Would the distributors be able to provide daily SAIFI and SAIDI to the Commission to enable this approach to be further analysed?</i></p>	<p>UED has fully explained the approach for the exclusion of events in the company's Price Service Offering. Broadly exclusions should be based on objective statistical measures rather than the current subjective nature of exclusions. UED believes that it has provided these statistical measures in the Price Service Offering which should form part of the debate on this issue together with those proposed by TXU and other distributors.</p>
Issue 9.16	UED's Response
<p><i>The Commission seeks comment as to whether supply interruptions due to a shortfall in embedded generation are reasonable and should therefore be excluded from the service incentive mechanisms, that is, excluded from the S-factor scheme and the obligation to make GSL payments.</i></p>	<p>UED considers embedded generators should be treated the same as transmission connection assets as far as S-factor calculation is concerned. That is, failure of generation should be treated as an upstream event and be excluded from the calculation of S-factor and GSL payments.</p>
Issue 9.17	UED's Response
<p><i>The Commission seeks comment as to whether the additional exclusion criteria proposed by CitiPower and Powercor should be included, or whether these events should be considered in the setting of targets and/or determining the quantitative criterion.</i></p>	<p>UED would support the additional exclusion criteria proposed by CitiPower and Powercor where these have application to our network.</p>
Issue 9.18	UED's Response
<p><i>The Commission seeks comment as to whether the S-factor scheme should be refined to remove the asymmetry, as proposed by TXU, or whether the asymmetry is immaterial. Should the S-factor scheme be smoothed to reduce the volatility or will this weaken the incentives?</i></p>	<p>The asymmetry between the downward and upward movement is in UED's opinion, material and should be adjusted for. UED is reviewing TXU's position and will provide further comments in due course.</p>
Issue 9.19	UED's Response
<p><i>Assuming the current S-factor scheme is modified, the Commission seeks comment as to whether $n_{r1}GAP_{.3}$ - should be set to zero when calculating the S factor for the calendar year 2008, or whether any other transitional adjustment to the S-factor scheme is required.</i></p>	<p>At this stage UED has no comment but will review the Citipower / Powercor proposal in more detail.</p>

Price Controls

<p>Issue 10.1</p>	<p>UED's Response</p>
<p><i>The Commission welcomes comment on the proposal to retain the current distribution tariff re-balancing constraint but allow the distributors to apply for year to year increases where sufficient supporting information is provided.</i></p> <p><i>The Commission seeks stakeholder comment on what information the distributors should provide in support of any proposal to increase the distribution tariff re-balancing constraint, including the level of customer consultation and analysis of customer impacts.</i></p>	<p>Current distribution tariff re-balancing constraint should be removed to allow distributors more flexibility in sending appropriate price signals to customers to manage the demand on the electricity system.</p>
<p>Issue 10.2</p>	<p>UED's Response</p>
<p><i>The Commission welcomes comment on whether distributors should be permitted to mandate re-assignment to time-of-use tariffs in association with the rollout of interval meters.</i></p> <p><i>The Commission also seeks comment on whether distributors should be required to consult with customers prior to re-assignment and the form, content and timeframe of this consultation.</i></p>	<p>UED is not proposing to mandate re-assignment to time-of-use tariffs in association with the rollout of interval meters. UED will maintain a 'watching brief' on the need for more substantive tariff changes and will assess the existing time-of-use tariffs as more accurate half-hourly load shapes for all customers becomes available. This would allow sufficient time for UED to consult with customers on the implications of the change and understanding of the demand component of the time-of-use tariff. Customers will then be able to make a more informed decision to take up the time-of-use tariffs.</p> <p>The form, content and timeframe of the consultation should be at the discretion of the distributors since the issues to be discussed or information to be provided will differ from time to time.</p> <p>UED seeks clarification (from the Commission) on which customers the Commission would like distributors to consult with (ie. directly with end users or with retailers who would then consult with end users).</p>
<p>Issue 10.3</p>	<p>UED's Response</p>
<p><i>The Commission seeks comment on the proposed content of the Tariff Strategy and Annual Tariff Reports. Comment is also welcome on the Commission's proposed consultation process for making variations to the tariff strategy report.</i></p>	<p>Tariff Strategy Report: As the tariff strategy report will be dependent on the results of the interval meter rollout (e.g. as half hourly data become available), discussions on the future tariff strategy will have to be broad. Its purpose is to provide stakeholders with a better understanding of how the final distribution prices that the customers see, are worked out and provide a broad explanation of UED's tariff strategy for the future (including facilitating a demand side response). Annual Tariff Report: Section 5. Details of consultation with stakeholders should be provided separately to the Annual Tariff Report and this section should be replaced with a reference to the consultation report.</p>
<p>Issue 10.4</p>	<p>UED's Response</p>
<p><i>The Commission seeks comment on changing the CPI measure from the September quarter CPI to the June quarter CPI. Would there be any adverse consequences from changing to the June quarter CPI?</i></p>	<p>Providing UED is not disadvantaged by the change in the CPI UED has no objection to changing the CPI index in order to facilitate the formation of tariffs earlier than the current timetable.</p>

Issue 10.5	UED's Response
<i>The Commission welcomes comment on barriers in the Commission's regulatory framework that inhibit use of demand side response.</i>	To manage demand on the electricity system, distributors set tariffs that aim to send pricing signals to customers however distribution tariffs have in the past been bundled at the retail tariff level for residential customers which can weaken or distort distributors pricing signals. This problem does not appear to be addressed by the Commission's regulatory framework.
Issue 10.6	UED's Response
<p><i>The Commission welcomes comment on providing for the pass through of the costs arising from a change in tax for a third party. In commenting on this issue, stakeholders should set out for the Commission:</i></p> <ul style="list-style-type: none"> • <i>what the nature of these costs are;</i> • <i>the materiality of these costs;</i> • <i>the frequency with which these costs are incurred;</i> • <i>the information to which the Commission should have regard when assessing the materiality of these costs; and</i> • <i>the information to which the Commission should have regard when making a determination on this issue.</i> 	UED makes no comment at this stage
Issue 10.7	UED's Response
<p><i>The Commission welcomes comment from stakeholders on whether distributors should receive a pass through for the financial failure of retailers. In commenting on this issue, stakeholders should set out for the Commission whether anything has changed since the last price determination to suggest that distributors are more susceptible to the failure of a retailer or why the provision for bad debts should be increased.</i></p> <p><i>Stakeholders should also comment on the likely impact on customers of allowing or not allowing such a pass through.</i></p>	In the company's Price Service Offering UED has made a cost allowance for the financial failure of a small retailer. This however does not fully insure the company for the failure of a large retailer. UED supports AGLE's proposal, to classify these as a pass through event. Distributors are not funded for these failures and depending on the size of the retailer involved may have a material impact on UED.

Metering

Issue 11.1	UED's Response
<p><i>The Commission seeks comments on the number of interval meters proposed to be installed by each of the distributors.</i></p>	<p>As stated in section 6.8 of the company's Price Service Offering, meter volumes quoted by UED allow for mandated rollout volumes to be averaged over the period of the roll-out and incorporate meter families due for regulatory testing during the period. The peak volume in 2008 represents the number of meters which form part of the families to be tested at that time. The actual number of meters to be replaced will not be confirmed until testing has been completed. UED continues to look at options to ensure it will be able to meet its obligations as they arise.</p>
Issue 11.2	UED's Response
<p><i>The Commission seeks comments on the unit costs proposed by the distributors. Should the unit costs for meter supply and installation vary in real terms from year to year? Should the unit costs be consistent across the distributors? Should the expenditure forecasts be based on the installation of single element or two element meters for customers with an off peak circuit?</i></p> <p><i>Should interval meters installed during the 2006-10 regulatory period be depreciated over 7 years, 10 years or 15 years?</i></p>	<p>During the Interval Metering consultation process, and again in our Price Service Offering , UED has raised concerns with aspects of the Commission's approach to a mandatory Interval Meter Roll-out Program. Given this level of uncertainty, and difficulties in obtaining firm pricing options from suppliers, UED has used its best estimates to complete the templates provided by the Commission as required. UED has based its costing on the Commission's Final Decision and has not attempted to deliver alternative costing solutions at this time.</p> <p>Unit costs should reflect the real costs of meter supply and installation and technologies used should represent an appropriate cost effective solution providing the functionality required. Given that metering solutions can be expected to continue to evolve as demand for new solutions grows, and the competitive nature of metering in the retail market, distributors must be able to recover their costs in a reasonable period. Costs should reflect the requirements and approach of the individual business and therefore may vary across distributors.</p> <p>UED considers the 10 year depreciation period proposed in our submission to be a maximum.</p>
Issue 11.3	UED's Response
<p><i>The Commission seeks comments on whether, as part of the interval meter rollout, the distributor should replace switchboards and meter boards, or whether the owner of the premises should be required to undertake this work prior to the replacement of the meter. If the distributor does replace switchboards and meter boards, should the costs be recovered from all customers or from the owner of the premises? If the owner is required to replace switchboards and meter boards, how will this be done? Where a customer requests that an interval meter is installed after hours, should the additional costs be recovered from all customers or from the customer initiating the request?</i></p>	<p>UED believes that in the interests of simplicity and cost effectiveness, installation costs should be smeared as part of the roll-out program. Where the customer requests work beyond the 'norm', or requires work to be undertaken out of hours, the incremental costs associated with such requests should be borne by the customer.</p>

Issue 11.4	UED's Response
<i>The Commission seeks comments on whether the proposed increases in costs for maintaining meters during the 2006-10 regulatory period are appropriate.</i>	Not relevant for UED.
Issue 11.5	UED's Response
<i>The Commission seeks comments as to whether the costs of meter reading proposed by the distributors are appropriate. Should the costs for reading meters be consistent across the urban distributors and across the rural distributors? What is the appropriate differential in the cost to read a meter between an urban distributor and a rural distributor?</i>	UED considers the costs submitted to be appropriate. However as part of ongoing review is analysing these (as well as all other costs) to ensure that they represent the most up to date estimates. UED believes that cost allowances should be reflective of the costs incurred and service provided by each company. The rural-urban differential should be determined by the actual costs of service delivery in the various areas.
Issue 11.6	UED's Response
<i>The Commission seeks comments as to whether the capital expenditure proposed by the distributors in relation to metering data services is appropriate. Should the costs associated with billing systems and B2B systems be recovered from all distribution customers or only from those customers with one of the distributor's standard meters installed and/or a meter that is read by the distributor? Should the capital expenditure in relation to metering data services be recovered over a five year period or a longer period?</i>	UED considers the costs submitted to be appropriate and that costs should be smeared across all customers. Data associated with all customers connected to the distributor's network passes through the distributor's billing and B2B systems and processes and to attempt to segment and charge these costs by individual customer types would be impractical and not cost effective.
Issue 11.7	UED's Response
<i>The Commission seeks comments as to whether the indirect costs proposed to be allocated to the metering price control by the distributors are appropriate.</i>	UED makes no comment on this issue.
Issue 11.8	UED's Response
<i>The Commission seeks comments on the operation of the M-factor. Are the unit costs proposed by the distributors appropriate to adjust revenue where interval meters have not been rolled out as proposed or should consistent unit costs be adopted for each of the distributors? Should the volume part of the incentive mechanism operate where the cumulative volume of meters installed is within 5 per cent of the proposed volumes? Should the efficiency part of the incentive mechanism operate in the same way as the efficiency carryover mechanism?</i>	UED re-iterates its concern set out in the EDPR submission that meter failure volumes should not be considered part of the M-Factor approach. UED considers that further work is required by the industry to ensure that the operation and effect of the 'M' factor is consistent with the incentive properties of the regulatory regime.
Issue 11.9	UED's Response
<i>The Commission seeks comments as to whether the metering service charges should be provided in a disaggregated form as proposed by the Commission. Are the arrangements for addressing the risk of stranded assets adequate? To what extent should the metering service charges be smoothed across the regulatory period? In setting the excluded service charges for metering for customers with annual consumption greater than 160 MWh with a manually read meter, over what period should the costs be recovered?</i>	As previously stated UED has provided an estimate of units and costs as part of its submission. The company has simply provided information based on the Interval Meter Final Decision and guidance provided by the Commission. Rather than address the issues as part of this response UED believes that further consultation is required on the issues raised, and recommend that the Commission facilitate a process to implement it's Final Decision. In addition UED does not believe that the stranded asset risk has been adequately addressed to date.

Issue 11.10	UED's Response
<i>The Commission seeks comments as to the demand-related and other benefits to the distributors of rolling out interval meters that should be incorporated into the distributors' price-service proposals.</i>	UED, has made a number of submissions during the interval metering consultation phase and reiterates that demand-related and other benefits to distributors will be marginal, particularly in the early years of the roll-out and at least until cost reflective retail tariffs are introduced and customer usage patterns change.
Issue 11.11	UED's Response
<i>The Commission seeks comments as to whether retailers and customers would value the installation of "ripple control" technology as part of the interval meter rollout.</i>	UED has no comment on this issue.
Issue 11.12	UED's Response
<i>The Commission seeks comments as to the appropriate period over which accumulation meters are depreciated. Should all the distributors adopt the same depreciation period?</i>	UED reiterates its proposed position, as outlined in the company's Price Service Offering, that 15 years is the appropriate depreciates period.

Excluded Services

Issue 12.1	UED's Response
<i>The Commission seeks comments from stakeholders on the information (policies and definitions) that distributors should provide on excluded services. To what extent have stakeholders experienced problems in the past due to the lack of adequate publicly available information relating to excluded services?</i>	UED makes no comment on this issue.
Issue 12.2	UED's Response
<i>The Commission seeks comments as to whether the charges for AGLE's excluded services should be indexed on an annual basis as part of this price review. Will there be sufficient historical data available at the time of the determination to make such a decision?</i>	UED would support the indexation of excluded services and notes that as part of the 2003 Gas Access Arrangement Review, the Commission allowed the indexation of Ancillary Reference Service charges
Issue 12.3	UED's Response
<i>What is the quantum and rationale for the allocation of shared costs to DUoS, metering and excluded services?</i>	UED makes no comment on this issue
Issue 12.4	UED's Response
<i>What is the quantum of revenues and costs derived from unregulated activities which utilise regulated assets? What is the quantum of and rationale for the allocation of these costs and revenues to regulated and non-regulated activities? To what extent should distributors' customers receive the benefits received from revenues earned from unregulated services utilising regulated assets? Should shared costs be allocated to non-regulated activities, and on what basis should this allocation be determined?</i>	UED, as part of the annual regulatory accounting statements provides the Commission with the quantum of revenue it receives for these types of activities. UED believes it is inappropriate to pass these revenues onto distribution customers as this does not promote the efficient use of infrastructure and economic efficiency.