

# United Energy Stakeholder Information Session

## EDPR overview

31 July 2014



## What is a price review

- A time to reset prices to our approved cost structure
  - Happens every five years – UE due to submit April 2015
  - “Normal” businesses reset prices more often based on market conditions
  - Monopoly provider of gas and electricity network services and subject to government regulations (Australian Energy Regulator approval)
- One chance to get our forecasts correct
  - We are bound by the forecasts for the next five years
  - Difficult to re-open prices once they are set
  - Now is the time for suggestions so we can include them in our proposal
- Project size and scope
  - Typically take around two years to complete
  - Every part of the business is represented
  - Expect to lodge over 10,000 pages of information

## Overview of our metrics



	United Energy
Asset base	\$2.0b
Annual Operating and Maintenance	\$125m
Annual Capital	\$200m
Annual Revenue	\$390m



## Customer consultation

- Main consultation avenue is our Customer Consultative Committee (CCC)
  - This committee meets at least quarterly
  - Umbrella group to consider customer views
  - We will take all customer led initiatives through this group before it goes into our proposal
  - Strong industry experience, it is a way of transparently providing information to assist our customers
  - We expect CCC members to consult with their members and help deliver our message
- Focus groups – complete
- Workshops – partially complete
- Willingness to pay / trade – largely complete, high level findings end July
  - Fair to say that customers do not want to pay more for electricity
  - Customers (in particular business customers) are prepared to forego some price reductions for additional services

## Focus group findings



- Most participants did not have an understanding of the energy supply chain
- Awareness of UE and the role of DBs was limited
- Significant concerns about billing and price increases
- Little understanding of bill composition or the drivers of price increases
- Smart meters was topical especially in relation to the negative media coverage of recent times
- Confusion in relation to tariffs
- Supply interruptions (planned/unplanned) were mixed across the network, in line with the high, medium and lower network reliability sample
- Safety was very important to most participants but was not seen as a major issue, as they expect UE would maintain high safety standards
- General support for the undergrounding of assets
- Environmental issues were generally given a low priority, though customer preference for solar was in part due to environmental issues
- Nearly all opposed paying more for improved services (e.g. increase supply reliability, connection times) as they stated they are already paying a high price for electricity.

## WTP findings



- People believe they have good but not perfect electrical reliability and as a result there is some modest appetite for improvement
- There is strong support the development of a rapid information response capability and business wants it to be more accurate and faster than consumers
- While respondents believe the electrical system is reasonably safe, they want more effort to go into this than in vegetation management and appearance of the network
- In general they want UE to direct efforts to where it will do the most good rather than just directed to their area and they generally trust UE to both know and direct their efforts appropriately
- When asked if they would pay or forego savings in bills for a range of 10 options – the average per bill was low at around \$3 for consumers and \$13 for business – however the median was zero – in other words more than half of the respondents would not contribute anything.

## Information & Consultation Phase



Date 2014	Topic Area
31 July	EDPR Overview
28 August	Customer Service
25 September	Network investment and Innovation
22 October	Safety and Environment
19 November	Expenditure and price path scenarios
11 December	UE EDPR proposal 2016-2020

## Community Outreach



- Shopping Centre kiosk program
- Objectives: information, data capture
- Schedule:
  - w/c September 1 – Bayside Shopping Centre, Frankston
  - w/c September 15 – Chadstone Shopping Centre
  - Early October – The Glen
  - *Potential 4<sup>th</sup> location (Dandenong) TBC*



## EDPR Narrative

- In our 2011-15 submission we set out a transformation strategy and various forecasts
  - Our transformation is largely complete
  - Spending slightly more capex than our forecast
  - Our O&M slightly below
  - Paying penalties for our current level of network performance
- We are now embarking on the next stage of our journey, building a long-term strategy and vision to better align our organisation to the evolving energy landscape and changing customer expectations
- The 2016-2020 submission will map out how we will continue our journey to create the *Intelligent Utility*
- We will work with our customers to “*Shape our energy future, together...*”



## Framework and Approach

- Control mechanism
  - Do not support AER’s proposal for revenue cap
  - Support continuation of a weighted average price cap - provides the best outcomes for customers
- AMI Metering – UE’s preferred position is that:
  - Expenditure up to the end of the derogation to be Alternative Control
  - Services after the end of the derogation should be non-regulated
  - “Default Metering Coordinator” - critical to transition to competition – UE to provide this service and treat as Alternative Control
- Public lighting
  - Negotiate vesting of new lights rather than automatic transfer to UE
  - For dedicated lighting
    1. Split the bundled OMR charge into OM and R; and
    2. Reclassify from Alternative Control to Negotiated
  - For other public lighting (those on our poles) – no change



## Price effect

- Opex
  - Each \$1m changes UE prices by approx. 0.3% and less than 0.1% of the total price
- Capex
  - Each \$10m of network capital changes UE prices by approx. 0.3% and less than 0.1% of the total price (assuming already spending \$180m per annum)
  - Each \$10m of IT capital changes UE prices by approx. 0.7% and less than 0.2% of the total price (assuming already spending \$20m per annum)
- Cost of capital
  - Each 0.1% of WACC changes UE revenue by approx. \$1.7m per annum and UE prices by approx. 0.5% and less than 0.2% of the total price
  - Nominal vanilla WACC is currently 9.49%.