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RE.UE.08.03

Dear Richard

RE: Consultation Paper on Savings and Transitional Arrangements

United Energy (UE) welcomes the opportunity to provide a submission in response to the Australian Energy Market Commission (AEMC) *Consultation Paper on Savings and Transitional Arrangements* of 14 September 2012.

In UE's view there are two substantive issues that are being addressed in the AEMC paper – these being:

- Timing of future reviews for UE and the effect of any change
- The application of review of efficiency of past capex

These issues are addressed below:

1. Timing of future reviews

The AEMC proposes to delay the Victorian electricity review by up to 12 months. UE does not accept that a delay is required for the Victorian review. The AEMC is proposing to change the length of the regulatory period (the length UE relies upon when establishing its financing arrangements) based on the AER's resourcing issues.

Whilst we understand that there are some immediate concerns in relation to implementing the new rules from 1 January 2013 it is not so apparent why resourcing issues are allowed to perpetuate for 3 years with no attempt to catch them up.

In the event that there will be a delay for Victoria UE proposes the following should apply:

- True up mechanism over the period 2016 to 2020 must apply (i.e. no change to the period)
- UE is able to set prices for 2016 based on its circumstances with reference to minimising future price volatility (noting that there will be a true up in the subsequent years)
- The AMI OIC be extended by the length of the delay and subject to the true up mechanism
- True up is relevant for all regulated services and prices
- The rate of return for the next regulatory control period would also apply in the transitional period
- The measurement period for any relevant market observable rate of return parameters are proposed by UE and approved by the AER prior to the submission of the regulatory proposal.
- The cost of debt methodology should be agreed at the framework and approach stage
- There will be no true-up to actual opex and capex in the transitional year, or for the capex and opex allowances for the transitional period to be set ex-ante
- Expenditure incentive schemes would be suspended in the transitional period

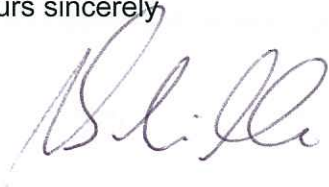
2. Review of efficiency of past capex

The AEMC have stated that or the avoidance of doubt, if the review of the efficiency of past capex is included in the final rules it would apply immediately and no transitional rule would apply. In effect capital expenditure already incurred in the current period would be subject to an efficiency review.

As a matter of principle UE objects to this proposal. For 2011 this amounts to being retrospective. The guideline should only be able to take affect once the guideline is implemented. In other words only capital expenditure spent after the guideline is implemented should be subject to and ex-post review.

If you have any queries in relation to this submission please call me on (03) 8846 9860.

Yours sincerely



Andrew Schille
General Manager, Regulation
United Energy