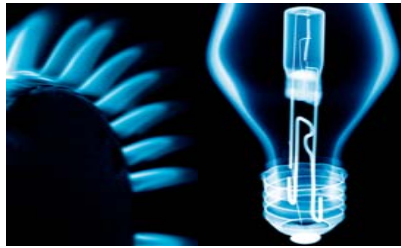


# DUET - UED EDPR Final Decision

19 October 2005



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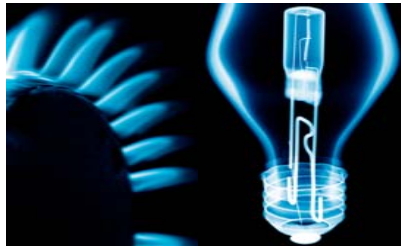
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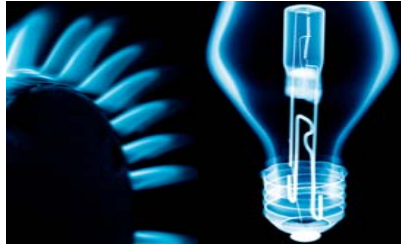


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UED Building Block Revenue



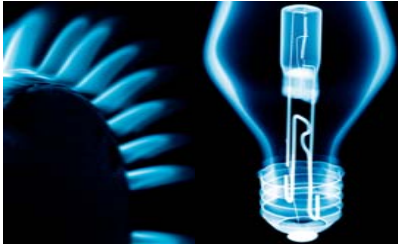
# DUET

## EDPR Overview

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- ❖ DUET and UED welcome the Victorian ESC's decision on the 2006 Electricity Distribution Price Review (EDPR) for UED
- ❖ This is a substantially better outcome for UED than the draft decision – the Po has been reduced from 22.7% to 14.7%
- ❖ We support the ESC's movement on a number of issues, particularly volume growth and capital expenditure
- ❖ The EDPR for UED is now a final decision – it is only on appeal that changes to the regulatory settings can be made
- ❖ DUET has given minimum distribution guidance for FY06 of 22.5¢ per stapled security. Following detailed analysis, we expect to be in a position to update the distribution guidance



# UED

## Final Decision – Key Elements

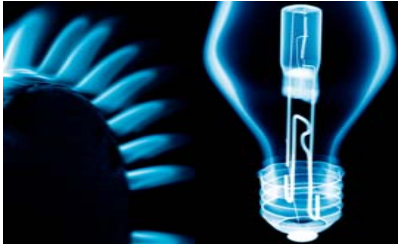
### ❖ DUoS Building Block Revenue

- Final ESC  $P_o$  is 14.7% compared to the draft 22.7%
- Final “x” factor is 2.5%, the same as the draft

### ❖ DUoS Building Block Revenue including metering

- Final ESC  $P_o$  is 15.6% compared to the draft 23.4%
- Final “x” factor is 1.4%, the same as the draft

\$2004 real m	2006	2007	2008	2009	2010	Total
Draft Total Prescribed Services Revenue	266.0	253.3	257.9	248.1	241.4	1266.7
Final Total Prescribed Services Revenue	279.6	262.5	271.5	261.5	251.2	1326.3
% Change	+5.1	+3.6	+5.3	+5.4	+4.1	+4.7



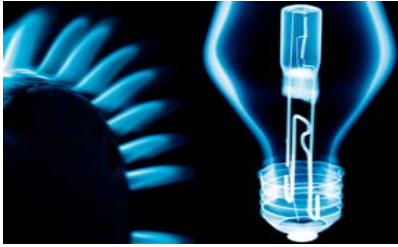
# UED

## Final Decision – Key Elements

### ❖ Gross Capital Expenditure

- Significant improvement from draft in total gross capex allowed
- No capex efficiency carryover mechanism from 2011 – replaced by mechanism to include additional financing costs of overspend up to \$62m (noting all capex should be included in the RAB at the next review)
- Electricity safety – requires further engagement with safety regulator
- Disagree with details of “S” factor formula

\$2004 real m	2006	2007	2008	2009	2010	Total
Draft Decision	86.9	86.5	85.3	98.2	108.4	465.3
Final Decision	101.1	95.0	95.5	102.1	109.4	503.1
% Change	+16.3	+9.8	+12.0	+4.0	+0.9	+8.1



# UED

## Final Decision – Key Elements

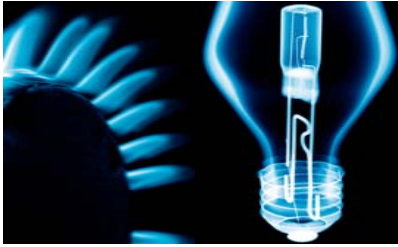
### ❖ Operating Expenditure

- Overall the ESC has made a number of favourable adjustments to the opex allowance, but we do not agree with the treatment of related party operating contracts

#### Key adjustments

- Related party transactions – no adjustment in draft, adjustment of an average reduction of \$12.3m pa in final
- ESC has made additional allowances for ongoing increase in opex cost base of an average of \$5.4m pa

\$2004 real m	2006	2007	2008	2009	2010	Total
Draft Decision	85.4	85.4	85.4	85.4	85.4	426.9
Final Decision	80.8	82.5	84.2	86.0	85.8	419.3
% Change	-5.4	-3.5	-1.4	-0.7	+0.5	-1.8



# UED

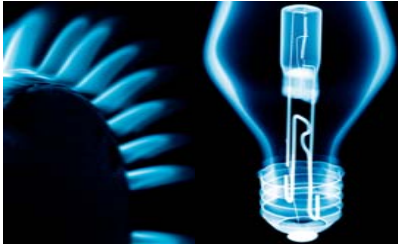
## Final Decision – Key Elements

### ❖ WACC

- Outcome in line with draft decision – steady at 5.9%
- Reduction from 2001 principally due to decrease in risk free rate

### ❖ Interval Metering

- Favourable adjustments to prices, no changes on volume relative to draft
- “M factor” ensures UED does not carry any volume risk



# UED

## Final Decision – Key Elements

### ❖ Volume Growth

- Positive outcome on volume growth
- Lower volume growth rate compared to draft decision, more reflective of recent historical trends
- Growth assumptions have a significant impact on  $P_0$  flowing through positively into opex and capex
- Does not allow for movement of customers to interval meter tariff

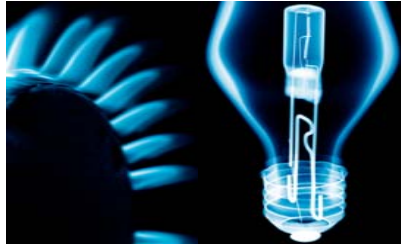
Volume Growth – 5yr average	
ESC Consultants	1.6%
Draft Decision	2.5%
Final Decision	1.6%



# UED

## EDPR Process – where to from here?

- ❖ The ESC's final decision contains significant variations from the draft
- ❖ UED is still considering its position in relation to a number of the parameters to determine any concerns which could merit an appeal
- ❖ An appeal process is available if grounds are identified
  - Depending on any such grounds of appeal, it would be heard by an appeal panel or the Victorian Supreme Court
  - An appeal to the panel would need to be lodged by 9 November 2005
  - An appeal to the Supreme Court would need to be lodged within 60 days



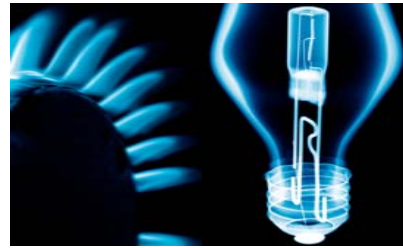
# EDPR Final Decision

## In Summary

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- ❖ A substantial improvement from the draft decision
- ❖ Confirms UED's capacity to make distributions to DUET over the 2006-2010 period
- ❖ UED is still considering its position in relation to a number of the parameters to determine the extent of any concerns
- ❖ No major resets for DUET assets until Multinet in 2008



# Appendix

## EDPR Building Block Revenue

❖ Final Decision building blocks requirement – 2006-2010

\$2004 real m	2006	2007	2008	2009	2010
DUoS					
Return on Capital	72.2	72.5	72.5	73.1	74.7
Regulatory Depreciation	88.4	89.7	92.8	78.7	69.6
Operating & Maintenance expenditure	80.8	82.5	84.2	86.0	85.8
Efficiency carryover	24.2	1.3	1.1	2.7	0.2
Tax liability	6.1	6.0	6.4	3.0	0.0
<b>Total Building Block – DUoS</b>	<b>271.7</b>	<b>251.9</b>	<b>257.0</b>	<b>243.5</b>	<b>230.2</b>
<b>Total Building Block – Metering</b>	<b>7.9</b>	<b>10.5</b>	<b>14.5</b>	<b>18.0</b>	<b>20.9</b>
<b>Total Prescribed Services Revenue</b>	<b>279.6</b>	<b>262.5</b>	<b>271.5</b>	<b>261.5</b>	<b>251.2</b>

Source: EDPR Final Decision Vol 1 P446