# Draft Shared Asset Guidelines - Regulated Stand-Alone Power Systems Review

Explanatory Statement

March 2025

AUSTRALIAN ENERGY REGULATOR

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**Amendment record**

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| | | |

# Request for Submission

We are undertaking a consultation process for amending the Shared Asset Guidelines to take into account the *National Electricity Amendment (Regulated stand-alone power systems) Rule 2022*. This rule change allows distributor-led stand-alone power systems (SAPS) to become part of the national electricity system where it may be cheaper, safer and more reliable than connection to the grid.

We are consulting in accordance with the distribution consultation procedures set out in rule 6.16 of the National Electricity Rules. In this explanatory statement, we have outlined the changes we propose to make to the Shared Asset Guidelines giving effect to the *National Electricity Amendment (Regulated stand-alone power systems) Rule 2022*.

We invite interested parties to make written submissions to us by the close of business, 30 April 2025. We prefer stakeholders send submissions electronically to: aerinquiry@aer.gov.au.

Alternatively, stakeholders can mail submissions to:

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> Executive General Manager, Network Regulation
> Australian Energy Regulator
> GPO Box 520
> Melbourne, VIC, 3001

We prefer all submissions be publicly available to facilitate an informed and transparent consultation process. We will therefore treat submissions as public documents unless otherwise requested.

We request parties wishing to submit confidential information to:

- clearly identify the information that is subject of the confidentiality claim, and reasons for the confidentiality claim
- provide a non-confidential version of the submission, in addition to a confidential one.

We will place all non-confidential submissions on our website at www.aer.gov.au. For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy, June 2014 available on our website.

Please direct enquiries about this paper to aerinquiry@aer.gov.au.

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# 1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions. We are guided in our role by the national electricity and gas objectives set out in the National Electricity Rules (NER) and the National Gas Rules (NGR). These objectives focus on promoting the long-term interests of consumers.

In February 2022, the Australian Energy Market Commission (AEMC) published the *National Electricity Amendment (Regulated stand-alone power systems) Rule 2022* removing existing barriers to distributed network service providers (DNSPs) providing stand-alone power systems (SAPS) to customers. It allows for DNSPs to provide SAPS to existing customers, and to offer to connect new customers to existing regulated SAPS where it is more economically efficient than connection to the interconnected national electricity system.[1] This is also referred to as regulated SAPS.[2]

The AEMC identified that the introduction of regulated SAPS may have implications for our existing guidelines.[3] In particular, the SAPS rule change amended Chapter 6 of the NER to classify regulated SAPS as standard control services. Consequently, regulated SAPS form part of the regulated asset base (RAB)[4] while also providing a non-distribution service, specifically a generation service. Where an asset in the regulatory asset base is providing two services, one of which is not a distribution service, the provisions related to shared assets in the NER apply.

Furthermore, without any updates to the Shared Asset Guidelines (Guidelines), the introduction of regulated SAPS will enable DNSPs to recover additional revenue. First through the revenue determination process, as the SAPS assets will form part of a DNSP's regulatory asset base. Second, through payment received from the Australian Energy Market Operator (AEMO) for the sale of electricity generated using the regulated SAPS. Therefore, the net positive payments from AEMO for SAPS generation should be deducted from the DNSP's annual revenue allowance.

In giving effect to the SAPS rule change, we must review and update the Guidelines.[5]

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1 AEMC, Review of the Regulatory Frameworks for Stand-alone power systems - Priority 1, May 2019.

2 A stand-alone power system is a system that generates and distributes electricity but is not physically connected to the national electricity grid. A SAPS can come in various forms, but for a residential customer it typically comprises of one or more renewable power generation units, a battery, and back-up generation. For some customers, this set-up will deliver safe and reliable power at a lower cost than connecting to the national grid.

3 AEMC, Review of the Regulatory Frameworks for Stand-alone power systems - Priority 1, May 2019.

4 Under the clause 6.5.1(a), the regulatory asset base of network service provider is the value of the asset used to provide standard control services, but only to the extent they are used to provide those services.

5 NER, cl. 11.142.5(a).

## 1.1 Scope and Timeline

### 1.1.1 Scope

The scope of our review is limited to specific statutory changes relating to the regulated SAPS. For clarity, all other matters not directly related to regulated SAPS are not considered in this review.

However, we recognise that there are on-going developments as part of the energy transition that may necessitate us making further changes to the Guidelines. We are open to receiving submissions with feedback on other prospective changes to the Guidelines, which may be considered in any future review. We intend to use the views of stakeholders to help shape the scope of a future review.

### 1.1.2 Timeline

The NER outlines the consultation process we must follow in undertaking this review.[6] Consistent with the NER, we are publishing this draft determination and explanatory statement document for consultation as per the *distribution consultation procedures*.[7]

| Description | Indicative date |
|---|---|
| Accepting submissions – draft guidelines | 14 March 2025 |
| Submission close | 30 April 2025 |
| Final guidelines | 1 July 2025 |
| Commencement of Guidelines (version 2) | 1 July 2025 |

Note: Dates are indicative and subject to change

## 1.2 Consultation questions

As part of the consultation process, we seek stakeholder feedback on the following:

1. Do stakeholders agree with the updates proposed to the Shared Asset Guidelines to accommodate the SAPS rule change?
2. Are there any additional updates, related to the SAPS rule changes, we have overlooked that should be incorporated?

6 NER, cl. 6.4.4(d).

7 Distribution consultation procedure is set out in NER, cl. 6.16.

# 2 Background

## 2.1 Shared Asset Guidelines

The AER must publish and maintain Shared Asset Guidelines setting out how we apply the shared asset principles contained in the NER.[8] The purpose of these Guidelines is to develop a mechanism to share benefits with electricity customers where a Network Service Provider (NSP) uses assets paid for by those customers,[9] to provide both regulated and unregulated services. These Guidelines do so by prescribing a shared asset mechanism, to reflect the shared use of the regulated asset.

Our approach reduces the revenue recovered from electricity customers by the amount of unregulated revenues earned by NSPs through the existing regulated asset base (RAB).[10]

Our Guidelines set out how we reduce consumer costs for shared assets:

- **Materiality:** The shared asset principles in the NER,[11] establish that use of shared assets should be material before cost reductions are applied,[12] but the NER do not define materiality in this context. Our Guidelines set out that we will apply the shared asset cost reduction method when the unregulated revenues from shared assets are more than 1% of the NSP's total annual revenue (smoothed).[13]
- **Method:** The NER specify that our proposed approach to applying the shared asset principles may include a methodology to determine cost reductions.[14] Our Guidelines state that we will reduce a NSP's regulated revenues by 10% of the value of unregulated revenues earned from shared assets.
- **Cost reductions may be proposed by NSPs:** The NER provides powers to the AER to determine cost reductions.[15] However, consistent with the propose-respond model in the NER, we will allow service providers to propose cost reductions to us.[16]
- **Information reporting:** what we'll require from NSPs to determine shared asset cost reductions that are reported through our regulatory information instrument.

8 NER, cll. 6A.5.5(c)-(d) and 6.4.4(c), (d).

9 When a NSP invests in a new asset, like a power pole, its cost is added to the NSP's regulatory asset base. The return that the NSP earns on the asset base is recovered from customers. If a business is also being paid for providing unregulated services, like carrying telco infrastructure on the pole, the NSP is essentially being paid twice for the same asset.

10 Under the clause 6.5.1(a), the regulatory asset base of network service provider is the value of the asset used to provide standard control services, but only to the extent they are used to provide those services.

11 As defined in NER, cl. 6.4.4(c) for distribution services and NER, cl. 6A.5.5(c) for transmission services.

12 NER, cll. 6.4.4(c)(3) and 6A.5.5(c)(3).

13 Please refer to the AER's Shared Asset Guidelines, section 2.3.

14 NER, cll. 6.4.4(c)(4) and 6A.5.5(c)(4).

15 NER cll. 6.4.4(a) and 6A.5.5(a).

16 In some instances, NSPs may apportion unregulated revenues. This may be suitable when NSPs use a combination of shared assets and other assets not providing standard control services. However, shared assets must be used minimally. The unregulated revenues must not be aggregated across multiple unregulated services or across multiple regulatory years.

Currently, our shared asset mechanism forecasts the annual unregulated revenue that a NSP is expected to earn from shared assets. This forecast is then compared to the revenue that is required to provide regulated services. The potential value of the cost reduction is capped by the NER, so that the reduction cannot exceed the regulated revenue of those assets.

## 2.2 Rule change requirements

The SAPS rule change required us to review and amend a number of statutory guidelines to accommodate the inclusion of the regulated SAPS in the NER. On 1 August 2022, we published 6 updated documents to take into account the SAPS rule change. These documents are guidelines that assist DNSPs to deliver outcomes that are in the long-term interest of electricity customers. Our amendments will help all network customers receive the benefits of SAPS becoming part of the national electricity system.

We must also review and where necessary amend and publish our Shared Asset Guidelines accommodating the SAPS rule change by 1 July 2025.[17] In this review we are required to consider how net positive payments from AEMO for SAPS generation should be deducted from the DNSP's annual revenue allowance.[18] The amendments to the shared asset principles are reflected in clauses 6.4.4 and 11.142.5 of the NER and AEMC's final report.[19]

The SAPS rule changes specifically modified the shared asset principles, in clause 6.4.4, to explicitly apply to regulated SAPS. Clause 6.4.4(c)(3) now states, *"a shared asset cost reduction should be applied where the use of the asset other than for standard control services is material* ***or is for the production of electricity for supply in a regulated SAPS that is sold through a market****"*.[20] The amended provision reflects that regulated SAPS generation revenue received via payments from AEMO is not subject to the materiality test.[21]

Furthermore, the transitional rule in clauses 11.142.5(c)-(e) introduced additional provisions facilitating the introduction of the SAPS framework. In particular, the AER must deduct regulated SAPS generation revenues from DNSP's annual revenue requirement in the first regulatory year if:[22]

- the SAPS generation systems are included in DNSP's regulatory asset base.
- DNSP's net SAPS generation revenue is positive for the previous regulatory control period.

Therefore, we are setting out how we will deduct regulated SAPS net positive generation revenues from DNSP's annual revenue requirement.

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17 NER, cl. 11.142.5(a).

18 NER, cl. 11.142.5(a); 6.4.4(b)-(d).

19 AEMC, *Updating the Regulatory Frameworks for Distribution-led stand-alone power systems: Final Report*, 28 May 2020, pp. 58-59.

20 NER, cl. 6.4.4(c)(3). The bold text indicates the amendments made to the shared asset principle.

21 AEMC, *Updating the Regulatory Frameworks for Distribution-led stand-alone power systems: Final Report*, 28 May 2020, pp. 58-59.

22 NER, cl. 11.142.5(c)-(e).

# 3 Explanatory Statement

In accordance with the SAPS rule change, we have reviewed our Guidelines and considered what changes are necessary.

Overall, our review of the Guidelines suggests that only limited, or mechanical, changes are required to accommodate the inclusion of SAPS. The updated shared asset principles, as per the SAPS rule change, are specific to regulated SAPS assets. These changes do not apply to other shared assets that are not classified as regulated SAPS. Therefore, we have only considered the changes needed to give effect to the SAPS rule change. A summary of the proposed changes is set out in section 3.2 below.

The AEMC's final report sets out requirements and reasoning for SAPS cost reductions within the Share Asset Guidelines framework. The amended changes to clause 6.4.4(c)(3) of the NER remove the materiality threshold applying to revenues from the '*production of electricity for supply in a regulated SAPS that is sold through a market*'. The AEMC considers that, *for SAPS generation assets, all payments received from AEMO should be considered material, as the DNSP would have incurred no extra cost to earn them.*[23] We have defined the net positive amount a DNSP receives for the production of electricity for supply in a regulated SAPS that is sold through a market as *regulated SAPS net positive generation revenues*.

In alignment with the AEMC's final report, we consider the amendment to have an operational effect of:

- not applying the 1% materiality threshold to regulated SAPS revenues for the production of electricity for supply that is sold through a market
- deducting the total of the regulated SAPS net positive generation revenues for the production of electricity that is sold through a market.

Furthermore, the SAPS rule change also sets out the transitional arrangement that applies in the interim. This arrangement is detailed in the sub-section below.

Our draft Guidelines amendments adopt the transitional arrangement for making cost reductions. We consider the backward-looking calculation of regulated SAPS net positive generation revenue is suitable to be applied on an ongoing basis. This is because, a backward-looking approach is a one stage approach for making SAPS cost reductions that does not introduce significant additional regulatory burden on us or DNSPs.

We also consider the backward-looking approach is in the long-term interest of consumers. This approach is fit for purpose and allows regulated SAPS benefits to be shared with electricity customers. Therefore, our cost reduction process adopts, as an ongoing arrangement, the transitional provision requirements.

[23] AEMC, *Updating the Regulatory Frameworks for Distribution-led stand-alone power systems: Final Report*, 28 May 2020, pp. 59.

## 3.1 Transitional arrangement

The transitional provision in the NER sets out a cost reduction methodology that is applicable in the interim until we publish our amended Guidelines. Clause 11.142.5(d) of the NER requires a DNSP's regulated SAPS net positive generation revenues to be reduced from its annual revenue requirement in the first year of the next regulatory control period.[24] A DNSP's regulated SAPS net positive generation revenue is calculated based on the amount it earned using SAPS generation systems in the previous regulatory control period .[25] In other words, actual revenues DNSPs earned in the previous regulatory control period.

Consistent with the NER, the transitional arrangement has been in effect from 1 August 2022, and we will make cost reductions for regulated SAPS net positive generation revenues stemming from 1 August 2022.[26]

Upon publication of our final Guidelines on 1 July 2025 (or earlier), our final Guidelines will take effect and cease the operations of the transitional arrangement.[27]

## 3.2 Summary of proposed amendments

In summary, we have proposed 3 main amendments to our Guidelines. Specifically, we propose:

- to introduce an asset threshold test (as per pages 4, 5 and 7 of our draft Guidelines)
- a separate cost reduction approach for regulated SAPS net positive generation revenues (as per pages 12 and 13 of our draft Guidelines)
- changes to the existing materiality threshold, specific to regulated SAPS (as per pages 2 and 7 of our draft Guidelines).

These three changes are discussed below. For further details please see our marked-up version of the draft Guidelines for consultation.

Our proposed amendments introduce an "asset threshold test" to be applied prior to making any shared asset cost reduction. This will enable us to assess and distinguish whether the unregulated shared asset revenues earned is via regulated SAPS assets[28] or other shared assets.

We propose to introduce a separate a cost reduction approach and method that should be applied to regulated SAPS net positive generation revenues. This method is based on actual revenue,[29] rather than forecast revenue. And, similar to the transitional rule requirement, we will make revenue adjustments to the DNSP's smoothed annual revenue requirement for the first year of the upcoming regulatory control period. We will consider the time value of money in making this adjustment..

24 NER, cl. 11.142.5(d)(ii).

25 NER, cl. 11.142.5(d)(i).

26 NER cll. 11.142.5(c)(i), (d).

27 NER, cl. 11.142.5(c)(ii).

28 Regulated SAPS assets that are generating regulated SAPS net positive generation revenues.

29 Estimate value may be used for the final or penultimate year of a regulatory control period, see section 3.3.6

In relation to the materiality threshold, we have clarified that the existing 1% materiality test does not apply to regulated SAPS assets.

Furthermore, we propose to make consequential amendments to these Guidelines. These are minor and administrative in nature, allowing regulated SAPS to be distinguished from other shared assets.

## 3.3 Reasons for proposed amendments

The proposed amendments are specific to DNSPs' regulated SAPS net positive generation revenues.[30] This review does not propose any changes to the current shared asset cost reduction method that is applicable for unregulated revenues (except regulated SAPS net positive generation revenues).

Table 1 sets out a summary of our approach on how we intend to apply the shared asset cost reduction following this review. These features, related to regulated SAPS, are discussed in detail below. We have also provided an illustrative example in section 3.4.

**Table 1: Approach that AER will apply for shared asset cost reduction**

| Shared Asset framework | Unregulated revenues (no changes to the current cost reduction method) | Regulated SAPS net positive generation revenue |
|---|---|---|
| Cost reduction mechanism | Forecast based | Actual (or estimate)[31] based |
| Materiality | 1% of a DNSP's annual revenue requirement | N/A (All regulated SAPS revenues are considered material) |
| Cost reduction value | 10% of the unregulated revenue | All regulated SAPS net positive generation revenues |
| Apportionment | Apportionment is applicable only to individual unregulated services which use shared assets | N/A |

### 3.3.1 Asset threshold test

We have introduced an asset threshold test to identify whether the proposed or existing shared asset is classified as a regulated SAPS. If the answer is 'yes' then the SAPS cost reduction methodology should be applied. If the answer is 'no' then the general cost reduction methodology would apply.

The asset threshold test is a necessary step to determine the cost reduction methodology for the shared assets. We have introduced this binary assessment to distinguish DNSP's SAPS from its other shared assets. This is because, for shared assets the cost reduction methodology attempts to correct cost allocation previously made based on change in asset sharing arrangements. However, the regulated SAPS provides both a regulated service and a generation service from the onset. Under the shared asset principles this sharing mechanism from the onset is not applicable. Therefore, a different cost reduction methodology would need to be applied to regulated SAPS assets.

30 This is because the SAPS rule change is limited to DNSPs.

31 Estimate value may be used for the final or penultimate year of a regulatory control period, see section 3.3.6

### 3.3.2 Retrospective cost reduction

We have introduced an exception to our revenue reduction approach, which for assets other than regulated SAPS, is forward looking. We propose that regulated SAPS net positive generation revenues be reduced based on actual revenues (or estimated revenues).[32] This exception is only applicable for assets classified as regulated SAPS, where a DNSP has earned revenue for the supply of electricity to the market.

We consider an ex post cost reduction method is more suitable for unregulated revenues earned via regulated SAPS. This is because:

- DNSPs will have an account of all regulated SAPS generation revenues earned through the market via regulated SAPS
- the transitional provision requires the net positive generation revenue, earned via regulated SAPS, to be deducted on a backward-looking basis.

Therefore, by using actual (or estimated)[33] regulated SAPS net positive generation revenues, it will reduce the regulatory burden on us and DNSPs. This approach will also simplify the calculation of cost reduction that is applied for regulated SAPS.

### 3.3.3 Materiality[34]

As per the NER clause 6.4.4(c)(3), the materiality condition set out in the shared asset principle is not applicable '*for the production of electricity for supply in a regulated SAPS that is sold through a market'*. This is because all revenues that DNSPs earn from regulated SAPS (via AEMO) is considered material because the DNSP would not have incurred extra cost to earn them.[35] Therefore, considering amendments to the NER, and the AEMC's final report, the materiality threshold will not apply to the regulated SAPS net positive generation revenues.

### 3.3.4 Cost reduction value

Consistent with the current application of the shared asset decrements we will adjust DNSPs smoothed annual revenue requirement. However, we will deduct all positive revenues earned from '*the production of electricity for supply in a regulated SAPS that is sold through a market'*. Therefore, the revenue reduction value for regulated SAPS assets would be equal to the net positive amount of the payments received for the supply of electricity to the market. This will be calculated based on an actual (or estimated)[36] basis.

Adopting the transitional provision arrangement, we will deduct this revenue from the subsequent revenue determination in the first year of the relevant regulatory control period.

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32 Estimate value may be used for the final or penultimate year of a regulatory control period, see section 3.3.6.

33 Estimate value may be used for the final or penultimate year of a regulatory control period, see section 3.3.6.

34 For clarity, we do not propose to alter the 1% materiality threshold for general shared asset cost reductions.

35 AEMC, *Updating the Regulatory Frameworks for Distribution-led stand-alone power systems: Final Report*, 28 May 2020, pp. 59.

36 Estimate value may be used for the final or penultimate year of a regulatory control period, see section 3.3.6.

### 3.3.5 Discount rate

Consistent with our determination approach, actual (or estimated) regulated SAPS net positive generation revenues should be inflated to account for the time value of money. This will be applied by using the cumulative weighted average cost of capital (WACC).

### 3.3.6 Using estimated value

Because revenue determinations are finalised prior to the end of the regulatory control period, actual unregulated revenue (for regulated SAPS net positive generation) earned for the final year of the regulatory control period will not be available when we calculate the cost reductions. Instead, for the final year, we will use an estimate of regulated SAPS net positive generation revenue in calculating the SAPS cost reduction.

If necessary, we may also use an estimate of regulated SAPS net positive generation revenues for the penultimate year of the regulatory control period.

Consistent with the existing shared asset cost reduction mechanism, we do not propose a reconciliation of the estimated values. The overall level of cost reduction of a regulated SAPS net positive generation revenue is likely to be small initially and potentially remain relatively insignificant compared to a DNSP's total annual revenue requirement. In that context, we do not consider that there will be a material impact from any difference between final year actual and final year estimated regulated SAPS net positive generation revenue.

## 3.4 Illustrative example for making SAPS cost reduction

This section provides an example for making SAPS cost reductions. This is a hypothetical example.

### Scenario

Assume we are making a revenue determination for a DNSP for the 2026-31 regulatory control period. In this determination, we are considering how the shared asset cost reduction should be applied.

Also assume that fixed real weight average cost of capital (WACC) for this DNSP is 5%.[37]

Table 1 sets out the DNSP's current period revenues and forecast period revenues earned via shared assets. The table also details the DNSP's forecast period annual revenue requirement (excluding other revenue adjustment components).[38]

37 Please note, the real WACC is varying and may differ between each year. We have simplified for the purposes of the illustrative example.

38 We note that in a revenue determination there will be other revenue adjustment components, that will impact the total annual revenue requirement, such as payments or penalties from incentive schemes.

**Table 1: DNSP's current and forecast unregulated revenues ($ million real 25-26)**

| Input | 21-22 | 22-23 | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 | 28-29 | 29-30 | 30-31 |
|---|---|---|---|---|---|---|---|---|---|---|
| Basis | Actual | Actual | Actual | Actual | Estimate | Forecast | Forecast | Forecast | Forecast | Forecast |
| Annual revenue requirement | - | - | - | - | - | 1200 | 1200 | 1200 | 1200 | 1200 |
| Total unregulated revenue | 30 | 30 | 30 | 30 | 40 | 45 | 45 | 45 | 45 | 45 |
| Regulated SAPS generation revenue | 10 | 10 | 10 | 10 | 20 | 15 | 15 | 15 | 15 | 15 |

## Shared asset decrements calculation for the 2026−31 period

We will be undertaking the total shared asset decrements in two parts. The first part is to deduct regulated SAPS net positive generation revenues, and the second part is to consider a general shared asset cost reduction for all other unregulated revenues. The total shared asset decrement is the sum of both of these parts.

### *Part 1: Regulated SAPS net positive generation revenue cost reduction component*

The first step for making the SAPS cost reduction is for the network service provider to distinguish the regulated SAPS net positive generation revenues from the total unregulated revenues. This is because the cost reduction method to be applied is different based on the type of asset. The last row of Table 1 sets out the regulated SAPS net positive generation revenues that will be subject to the SAPs costs reduction.

The SAPS cost reduction method will use a backward-looking approach as it looks at the net generation revenue for the previous regulatory control period for the SAPS generating systems. This is the actual or estimated regulated SAPS net positive generation revenues in the regulatory years between 2021−22 and 2025−26. Consistent with our current revenue determination approach, we then inflate these amounts with the WACC. We will need to consider the WACC in two parts, the first part is to determine the future value at the end of the regulatory period (2025−26). Then, we will determine the future value in terms of the first year of the subsequent regulatory control period (2026−27).

***Future value calculation in 2025−26***

Table 2 below illustrates the calculations to account for the time value of money using the WACC. For simplicity, we have assumed the values are reported in real terms at end of the year. If reported values are in in mid-year nominal terms, then it should include inflation and half year WACC adjustments in the time value of money calculation.

**Table 2: Application of SAPS cost reduction ($ million real 25-26)**

| Parameter | 21-22 | 22-23 | 23-24 | 24-25 | 25-26 | Future Value |
|---|---|---|---|---|---|---|
| Regulated SAPS net positive generation revenue | 10 | 10 | 10 | 10 | 20 | - |
| Real vanilla WACC (%) | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | - |
| Year 1 revenue future value in 2025−26 | - | - | - | - | - | $10x(1.05)^4=12.16$ |
| Year 2 revenue future value in 2025−26 | - | - | - | - | - | $10x(1.05)^3=11.58$ |
| Year 3 revenue future value in 2025−26 | - | - | - | - | - | $10x(1.05)^2=11.03$ |
| Year 4 revenue future value in 2025−26 | - | - | - | - | - | $10x(1.05)^1=10.50$ |
| Year 5 revenue future value in 2025−26 | - | - | - | - | - | $20x(1.05)^0=20.00$ |
| **Total revenue in future value in 2025−26** | **-** | **-** | **-** | **-** | **-** | **65.26** |

***Future value calculation in 2026−27***

As the proposed shared asset deductions are to be made to revenues for the first year of the subsequent regulatory period, we will also need to account for the time value of money in the first year of the subsequent regulatory control period. The calculation is done separately because the real WACC for year one of the following regulatory control period is made at the time of the revenue determination. Applying this concept to this scenario, we will further escalate the total regulated SAPS net generation revenue with the relevant real WACC. Here, $65.26 million ($ real 25-26) calculated in Table 2 will be further escalated to 2026−27 period. This can be calculated as:

$$= \$65.26\, million \times (1+0.05)^1 = \$68.52\, million$$

Therefore, the sum of the time value adjusted regulated SAPS net positive generation revenue, in future value terms of year 2026−27, that should be deducted from the DNSP's first year of the following regulatory control period, is $68.52 million ($ real 25-26). This amount is the SAPS component of the shared asset decrements that will be applied to the upcoming regulated period 2026-31.

### *Part 2: General shared asset cost reduction component (excluding regulated SAPS net positive generation revenue)*

This step is applied to calculate the unregulated revenues earned through shared assets that are not classified as regulated SAPS. For a DNSP, all other shared assets, we will first apply the asset threshold test and then apply the (current) general shared asset cost reduction methodology. The general cost reduction methodology for shared assets has been set out in our current Guidelines and described in Section 2.1 above.

For clarity, the SAPS rule change is specific to regulated SAPS and does not require us to make any amendments to other unregulated revenues. Therefore, consistent with our current approach, we will apply the general cost reduction on unregulated revenues (except regulated SAPS net positive generation revenue) on a forecast basis.

The first step is to the asset threshold test for the upcoming regulatory control period, or the 2026-31 period in this scenario. This is to determine the total unregulated revenue that is subject to a general shared asset cost reduction.[39] This is calculated by subtracting the total forecast unregulated revenues from the forecast regulated SAPS net positive generation revenues. This is because regulated SAPS net positive generation revenues (unregulated earned via regulated SAPS) will be deducted based on actual revenues, whereas other unregulated revenues deductions are based on forecast revenues as per the current Guidelines.

In this scenario, in 2026−27 the total forecast unregulated revenue is $45 million ($2025−26), this amount includes the $15 million ($2025-26) for the regulated SAPS net positive generation revenues. Here, only the other unregulated revenues (excluding the regulated SAPS net positive generation revenues) is subject to the forward-looking general cost reduction method.[40] Therefore, the DNSP must subtract the $15 million from the total forecast unregulated revenues, or $45 million ($2025-26) to calculate the other unregulated revenues that is subject to general cost reduction method. On this basis, for 2026−27 the forecast unregulated revenue amount that will be subject to a general cost reduction is $30 million ($2025−26).

Then, as per current the Guidelines, we will assess whether this amount meets the materiality threshold. The materiality is calculated based on 1% of the annual revenue requirement. In this case, 1% of $1,200 million ($2025−26) is $12 million ($2025−26). The materiality threshold would be met as $30 million is greater than $12 million for 2026−27.

As per the general cost reduction methodology, we will make a deduction equal to 10% of the forecast unregulated revenue.[41] This would amount to $3 million ($2025−26) for 2026−27. The same calculation should be done for the rest of the forecast period. Here, the general cost reduction amount is $3 million ($2025−26) for each year.

### *Total shared asset decrement*

The total shared asset decrement that would be applied to the period 2026−31 is the sum of the SAPS component and the general shared asset component.

Table 3 shows the total shared asset decrement that would apply for the 2026−31 regulatory control period.

[39] Please note, the general cost reduction is applied to the unregulated shared asset revenues that is not considered regulated SAPS net positive generation revenues. Therefore, the 10% cost reduction value for unregulated revenues (except regulated SAPS net positive generation revenues) still applies in accordance with current Guidelines.

[40] For clarity, shared asset cost reduction for the regulated SAPS net positive generation revenues in the forecast period (2026-31 period) should be undertaken in the subsequent revenue determination. This reduction will be based on actual revenues rather than forecasts, noting that the final or penultimate year of the regulatory control period may be based on an estimated value.

[41] Please note, this is in accordance with current Guidelines.

### Table 3: DNSP's shared asset decrements for 2026−31 period ($2025−26)

| Parameter | 26-27 | 27-28 | 28-29 | 29-30 | 30-31 |
|---|---|---|---|---|---|
| Annual revenue requirement | 1200 | 1200 | 1200 | 1200 | 1200 |
| SAPS cost reduction for 2021−26 period as per Part 1 | 68.5 | | | | |
| General shared asset cost reduction for 2026−31 period as per Part 2 | 3 | 3 | 3 | 3 | 3 |
| Total shared asset decrements | 71.5 | 3 | 3 | 3 | 3 |
| **Reduced annual revenue requirement** | **1128.5** | **1197** | **1197** | **1197** | **1197** |