



## **Summary of meeting**

### **Shared Asset Guideline**

#### **Bilateral meeting with the Energy Networks Association no.2**

**12 June 2013  
2.30 – 4pm (EST)**

**Held at AER's Sydney, Melbourne, Canberra, Adelaide and Brisbane offices (VCU)**

On 12 June 2013, as part of the Better Regulation package, AER staff hosted a second bilateral meeting with members of the Energy Networks Association (ENA) on development of the Shared Asset Guidelines. Moston Neck, AER Director, chaired the meeting. Chris Pattas, AER General Manager, attended also. Several electricity network service provider (NSP) representatives participated. AER video conferencing unit (VCU) facilities allowed face-to-face discussion, with other attendees participating by teleconference.

No formal presentation was provided by AER staff or attendees. The ENA agreed subsequent to the meeting that AER staff could publish a meeting summary on the AER website. Issues raised were not to be attributed to individuals or organisations.

This is the second bilateral meeting held with the ENA's shared assets working group. It follows a number of bilateral discussions with stakeholders from both the electricity supply industry and consumer groups held before submissions on our issues paper closed. Now that submissions have closed AER staff are preparing draft guidelines for publication and further feedback. NSP submissions consistently sought further engagement with AER staff on technical details of the draft guidelines.

Consultation outlined above is in addition to consultation with the AER's Customer Reference Group, comprising representatives from several consumer organisations and advocacy groups. Further engagement with other stakeholders on guidelines development is welcomed.

#### **1. Introductions**

AER staff welcomed attendees and outlined that the purpose of the meeting was to seek further input on the content of draft guidelines. Staff further noted that following release of draft guidelines there will be opportunities for further consultation, including written submissions, prior to release of final guidelines.

AER staff reiterated that they prefer to see established a shared asset mechanism which is simple, transparent and robust, mitigating administrative costs. Staff noted that submissions were received and are being considered in preparing draft guidelines. Staff noted the objective for the shared asset rule is to share some of the benefits with electricity customers from the provision of unregulated services that rely in part on shared assets. The rule is not aimed at optimising shared asset use, which allows a less detailed mechanism than in some other cases.

## 2. Issues

### Incremental cost based mechanism

AER staff outlined that:

- the Rules specify that the profitability of unregulated services provided by NSPs should not be the basis for shared asset cost reductions
- while a number of submissions proposed that benefit sharing with electricity customers be limited to unregulated revenues above NSP's incremental costs, AER staff indicated this was not a viable option under the Rules.

Attendees proposed that the AER give greater weight to the shared asset principle that incentives should be retained for NSPs to provide unregulated services. Further, that to give effect to this principle, benefit sharing with customers should be limited to unregulated revenues above NSP incremental costs associated with an unregulated service. Attendees proposed that this would be efficient, as benefits would be shared with customers but incentives for unregulated services to be provided would also be retained. Attendees further proposed that in some circumstances NSPs recover only their incremental costs, and make no profit.

AER staff noted also that in the context of third parties providing services using electricity supply network assets, such third parties should provide support for the network's shared costs in addition to the NSP's incremental costs. Further, that this is akin to a rent paid to electricity customers, who have financed the full cost of the shared assets to date. AER staff also noted that the AEMC final decision paper explicitly discussed the allocation of commercial risk to NSPs. That risk of non-commercial returns from unregulated services should sit with NSPs, not with electricity customers who have no capacity to manage that risk.

Attendees noted that they interpret shared asset rules differently and see scope for the AER to give weight to their incremental costs when determining cost reductions.

### Sharing revenues

Attendees proposed that the AER should not characterise the prospective shared asset mechanism in terms of revenues, but in terms of costs. AER staff noted that while shared asset rules relate to asset costs, recovery of those costs is necessarily characterised in relation to revenues. As such, discussion of sharing unregulated revenues with electricity customers is appropriate.

### Assessing materiality in aggregate

AER staff addressed a proposal in some submissions, and previously advocated by the ENA working group, that material unregulated service use of shared assets be assessed per service. AER staff noted that such an approach would give rise to difficulties in defining the relevant service. It may also lead to requirements for more detailed asset management than incurred under an aggregated approach. As such, AER staff support assessment of materiality in aggregate.

### Cost reduction method

Attendees indicated that the proposed benefit sharing ratio of 30 per cent would put significant pressure on some unregulated services, to the point that some would be discontinued. Some other service opportunities may not be taken up. However, some attendees also noted that, aside from the sharing proportion, a high level cost reduction method using unregulated revenue to determine materiality appeared workable. Some attendees indicated that while a simple high level approach appeared to suit network based unregulated services, it appeared less suited to non-network services.

AER staff noted that a high level set of calculations using relative regulated and unregulated revenues to determine cost reductions would be straightforward and therefore mitigate administrative costs. Staff also reiterated that the shared asset rules and therefore the shared asset mechanism were relatively general, so precise or optimised cost adjustments were not required. Rather, the intent was to ensure customers pay less for assets used also to earn unregulated revenues. Absolute precision in the calculations to determine cost reductions is not a key requirement and may lead to large administrative costs relative to benefits. Staff further noted that a 30 per cent sharing ratio is consistent with the approach set out in the AER issues paper, but need not be the final sharing ratio. Staff noted the consistency of industry feedback that a considerable proportion of shared asset unregulated revenues relates to recovery of incremental costs.

### Depreciated asset values cap cost reductions

AER staff noted that depreciated regulatory values of shared assets form an effective cap for shared asset cost reductions. Staff indicated that on current thinking, NSPs would be able to propose a method for their own calculation of this cap for AER approval as part of a regulatory proposal. This is preferable to the AER determining an approach for this calculation as NSPs have greater insight into their own asset management practices. Staff agreed that detailed calculations of specific assets' depreciated values would be impractical given the likely limited impact of a shared asset mechanism on total revenues, or customer benefits.

### Asset related revenues

Staff also noted that unregulated revenues relevant to this mechanism are those related to shared asset use. Where service costs are appropriately allocated to unregulated services by cost allocation methods (CAMs), revenues earned to recover those costs are outside the AER's scope. Any opex type costs incurred by NSPs in relation to unregulated services which use shared assets should be allocated by CAMs to the unregulated service classification.

### Contributed assets

Staff noted that assets contributed by third party service providers can provide a material benefit to electricity customers. This is because, for example, a power pole replaced/upgraded by a third party will not be financed by electricity customers. The effect is to mitigate asset replacement costs for customers. Staff asked attendees to provide examples and statistics regarding such asset replacement and related customer benefits. It may be possible to include in the guidelines provisions making allowance for such customer benefits when determining cost reductions. Alternatively, the guidelines may simply provide scope for NSPs to provide evidence of such benefits within regulatory proposals.

### Next steps

Staff indicated that further feedback, including written responses, may be provided to the AER up to COB Monday 17 June 2013. Beyond that date, feedback may not be accounted for in preparing the draft guidelines. However, staff encouraged attendees to continue to engage on guidelines development beyond publication of the draft guidelines.

### **3. Meeting attendance**

<b>Represented</b>	<b>Jurisdiction</b>
Energy Networks Association	National
Powerlink	Queensland
Energex	Queensland
Ergon	Queensland
SA Power Networks	South Australia
Jemena	Victoria
SP Ausnet	Victoria
Powercor	Victoria
Ausgrid	New South Wales
Transgrid	New South Wales