17 May 2013

Mr Chris Pattas
General Manager – Network Operations and Development
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Pattas,

ActewAGL Distribution welcomes the opportunity to provide this submission in response to the AER's Shared asset guidelines issues paper.[1]

ActewAGL Distribution is a member of the Energy Networks Association (ENA) and supports the ENA's comprehensive submission in response to the AER's Shared assets guidelines issues paper. ActewAGL Distribution has the following key points to make in relation to the development of the shared asset guidelines.

Application of the guidelines

ActewAGL Distribution supports the development of guidelines that are transparent, simple to apply and result in a fair allocation of shared asset costs between NSPs and customers. ActewAGL Distribution endorses the AER's view that where an NSP's cost allocation methodology (CAM) is in place and functioning as it should, then any costs and revenues associated with shared distribution assets would be allocated via the CAM and the shared asset guidelines would not apply.

It is important to clarify also that, consistent with 6.4.4(a)(2) of the rules, the guidelines would only apply and a cost adjustment made to reflect the costs of shared assets, in the case where an NSP is recovering revenue through charging for the provisions of a service.[2] This is an important distinction for NSPs who may have in place pre-existing or legacy arrangements that prohibit the recovery of revenue from assets that are being used for more than one purpose. ActewAGL Distribution's view is that no cost adjustment would be required in such a case, nor would there be any requirement on the part of the NSP to submit information to the AER in relation to these assets. Such a requirement would increase compliance costs for NSPs and provide zero benefit for customers.

Materiality threshold

The rules require that a shared asset cost reduction should only be applied where the use of the asset other than for standard control services is material.[3] ActewAGL Distribution notes the requirement in the rules for the materiality threshold to be based on 'use' of the shared asset, but understands that measuring the proportion of that asset used by an unregulated service could be problematic.

A more practical basis for the materiality assessment would be the revenue earned from each unregulated service as a proportion of the annual revenue requirement (ARR). ActewAGL

[1] AER, 2013, *Better Regulation: Shared asset guidelines for electricity distribution and transmission – Issues Paper*, March.
[2] NER, 6.4.4(a)(2)
[3] NER, 6.4.4(c)(3)

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Distribution notes that the AER uses 1 per cent of the ARR as the materiality threshold in other contexts. In this context, ActewAGL Distribution supports the *Unregulated Revenue Test* (at 1% of the ARR) proposed by the ENA. When applied on a per service basis, this would provide a simple way of identifying unregulated services that may be subject to the sharing methodology. By excluding services that do not generate a material amount of revenue, it would also limit the administrative burden on NSPs and the AER.

Information reporting

ActewAGL Distribution does not agree with the AER's proposal to have a separate materiality threshold of 0.5% of the ARR for the provision of information in relation to shared assets. Whilst cognisant of the AER's wishes for an accountable and transparent process, the process should also be simple and not result in unnecessary additional regulatory burden. Currently, unregulated revenues are already reported in RINs that are submitted to the AER on an annual basis. ActewAGL Distribution proposes that at the time of the regulatory reset, if the 1% materiality threshold is triggered, then NSPs would at that time report details of unregulated revenues in their shared asset cost reduction proposal. This should not become an annual requirement and NSPs should not be required to report to the level of detail proposed by the AER in its issues paper, given that contracts for the provision of unregulated services may contain commercially sensitive information.

Shared asset cost adjustment proposal

ActewAGL Distribution supports the 'straw-man' process proposed by the ENA for making a shared asset cost reduction. In the event that revenue per service triggers the materiality threshold and costs are not already allocated via a CAM to unregulated assets, then a cost sharing proposal would be submitted as part of the regulatory proposal for the next five years. As proposed by the AER in its issues paper, the adjustment should be forward looking, and no true-up would be made at the end of the regulatory period.

It is important that the guidelines remain flexible enough for NSPs to propose a cost sharing mechanism that can take account of the unregulated use of shared distribution assets, commercial contractual arrangements and the complexities associated with measuring the proportion of assets used for unregulated services. Cost sharing proposals should be assessed by the AER on a business by business basis in order to provide the most equitable sharing arrangement possible between NSPs and distribution customers.

ActewAGL Distribution strongly believes that the choice of methodology and proportion of costs to be shared must rest with the NSP. It would not be appropriate for the guidelines to prescribe a 'one size fits all' cost adjustment methodology given the various types of asset sharing arrangements in place across the industry.

It is also important for the AER's approach to cost reduction to be consistent with clause 6.4.4(c)(1) of the NER which states that a DNSP should be encouraged to use assets that provide standard control services for the provision of other kinds of services where that use is efficient and does not materially prejudice the provision of those services. Indeed the AER has acknowledged in its issues paper that cost reductions would need to be conservative because if NSPs perceive regulatory decisions will erode the profitability of unregulated services, then they may not allow or provide such services.

Guidelines to include ENA's list of considerations

ActewAGL Distribution is cognisant of the AER's commitment to developing guidelines that result in a process that is simple, transparent and fair to NSPs and their customers, whilst at the same time limiting additional regulatory burden on NSPs.

ActewAGL Distribution strongly supports the development of a set of guidelines that provide guidance for cost sharing rather than prescribing a particular methodology and sharing proportion. This will provide the flexibility necessary to deliver optimal sharing outcomes for NSPs and their customers.

ActewAGL Distribution endorses the list of considerations proposed by the ENA, following recent discussions with the AER, and supports the inclusion of this list in the guidelines to provide up-front certainty to stakeholders about the application of the guidelines and the interrelationship between the guidelines and the rules.

If you would like to discuss any aspect of this submission, please contact Shona Alexander, Principal Regulatory Advisor on (02) 6270 7929.

Yours sincerely,

David Graham
Director Regulatory Affairs and Pricing