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Ref: BN/TF/JD

Date: 17 May 2013

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

Email: costallocations@aer.gov.au

Dear Mr Pattas

**SHARED ASSET GUIDELINES FOR ELECTRICITY DISTRIBUTION AND TRANSMISSION ISSUES PAPER**

Ergon Energy Corporation Limited, in its capacity as a Distribution Network Service Provider in Queensland, welcomes the opportunity to provide a submission to the Australian Energy Regulator on its *Shared Asset Guidelines for Electricity Distribution and Transmission Issues Paper*.

Should you require any additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 4092 9813 or Trudy Fraser on (07) 3228 2144.

Yours sincerely

**Jenny Doyle**
Group Manager Regulatory Affairs

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Encl: Ergon Energy's submission.

# Ergon Energy Corporation Limited

**Submission on the *Shared Assets Guidelines for Electricity Distribution and Transmission – Issues Paper***

**Australian Energy Regulator**

**17 May 2013**

# Submission on the *Shared Asset Guidelines for Electricity Distribution and Transmission – Issues Paper*

## Australian Energy Regulator

## 17 May 2013

This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited
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## 1. INTRODUCTION

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Shared Assets Guidelines for Electricity Distribution and Transmission – Issues Paper* (the Issues Paper).

Ergon Energy notes that there are benefits to be realised through unregulated services sharing regulated assets and for this reason supports the development of the Shared Assets Guidelines (the Guidelines) as a mechanism to facilitate the realisation of these benefits. However, Ergon Energy suggests that in developing the Guidelines, the AER remain cognisant of the fact that Network Service Providers (NSPs) are not always able to recover costs associated with the unregulated activities and that there are administrative costs in complying with the Guidelines and therefore any sharing mechanism should apply only after these costs have been taken into account.

Ergon Energy is a member of the Energy Networks Association (ENA), the peak national body for Australia's energy networks. The ENA has prepared a comprehensive submission addressing the AER's Issues Paper. Ergon Energy is fully supportive of the arguments contained in their submission. In particular Ergon Energy agrees that there is benefit in outlining a list of considerations, as included in the ENA's submission, that are relevant to the development of a detailed shared asset mechanism, Further, as recommended by the ENA, Ergon Energy supports the inclusion of these considerations in the Guidelines in order to provide certainty for NSPs and other stakeholders in terms of their scope of application.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

## 2. TABLE OF DETAILED COMMENTS

| Question(s) | Ergon Energy Response |
|---|---|
| *Shared Asset Approach* | |
| 1. Should shared asset guidelines incorporate a materiality threshold of 1 per cent of the annual revenue requirement (ARR)? Please provide your reasons. Alternatively, what approach to materiality might be adopted? | Ergon Energy agrees with the ENA that the Guidelines should include an Unregulated Revenue Test at 1 per cent of the Annual Revenue Requirement and that this test should be applied on a per service basis to avoid any high administrative costs being incurred in relation to a non-material service. However, as noted by the ENA, Ergon Energy acknowledges that the Unregulated Revenue Test is not a test of 'material use' and further work will be required to appropriately define 'material use' in the Guidelines. |
| 2. We propose to forecast shared asset cost reductions and not require any adjustment once actual outcomes are known. Do you agree with this approach? Please provide your reasons. | Ergon Energy agrees there should be no adjustments made within a regulatory control period on the basis that the National Electricity Rules do not permit making shared asset cost reductions within a regulatory control period. |
| 3. We propose that when shared assets produce revenues exceeding 0.5 per cent of the annual revenue requirement that more detailed reporting of these revenue sources would be required on an annual basis. Do you agree? Please provide your reasons. | Ergon Energy does not support additional reporting of unregulated revenue sources on the basis that such reporting would impose an additional administrative burden on NSPs in the absence of any clearly identifiable benefit. Reporting should generally only be done as part of the Distribution/ Transmission proposal process (that is, once every 5 years), and should not include detailed information, such as that outlined in the Issues Paper, on an annual basis. |
| 4. In light of our proposed approach to shared asset reductions, what other improvements could be made? Please provide your reasons. | Ergon Energy notes and supports the Straw Man included in the ENA's submission as a useful modification to the AER's proposed approach in this regard. In particular, Ergon Energy considers that the Straw Man represents an administratively simple and transparent process for giving effect to the desired shared asset approach. |
| *Shared asset method* | |
| 5. Should shared asset guidelines detail a method for cost adjustment? | Although Ergon Energy supports the need for certainty in this regard, we do not consider that it would be appropriate to fix a particular methodology to apply in all cases. The preferred approach would be for the Guidelines to include a range of acceptable methodologies that can be applied by NSPs in consideration of their individual circumstances. However, as noted by the ENA, the AER should further consult with stakeholders prior to developing any specific cost reduction methodologies. |
| 6. How could cost reductions best share unregulated service benefits with customers while retaining incentives for asset owners? | As noted by the ENA, a considered response to this question is contingent on further work being undertaken with regard to the detail of methodologies for cost adjustment. |

| | |
|---|---|
| 7. Should the profit from unregulated services be used to make shared asset cost adjustments? | Ergon Energy does not believe it is appropriate to use profit to make revenue adjustments. To do so imposes a risk that NSPs' desire to enter into commercial agreements and subsequently earn a profit from the unregulated use of Standard Control Services assets will be eroded. Furthermore, this has the potential to undermine community benefit (i.e. third parties such as broadband providers will pay more to provide their service if they can't access established networks at cheaper prices).<br>Moreover, to make revenue adjustments based on profit will require the disclosure of commercial arrangements, which is inappropriate. |
| 8. Is a technical/physical asset use approach to a shared asset cost reduction preferable to an approach based on proportional revenues? Please provide your reasons. What other method could the guidelines incorporate? | As noted by the ENA, a considered response to this question is contingent on further work being undertaken with regard to the detail of methodologies for cost adjustment. |
| 9. Should the guidelines include a fixed cost reduction proportion? If so, what should the proportion be? Should the guidelines set out another approach? | As noted by the ENA, a considered response to this question is contingent on further work being undertaken with regard to the detail of methodologies for cost adjustment. |
| *Other approaches* | |
| We welcome stakeholder suggestions of alternative cost reduction methods. | |