

Jemena Electricity Networks (Vic) Ltd

2016-20 Electricity Distribution Price Review Regulatory proposal

Attachment 6-6

Shared asset cost reduction

Public

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TABLE OF CONTENTS

1.	Overview	1
2.	Shared asset cost reduction methodology	2
2.1	Shared asset unregulated revenue.....	2
2.2	Materiality test and cost reduction	2
2.3	Shared asset cost reduction.....	3

List of tables

Table 2–1: Shared asset unregulated revenues (\$million real 2015)	2
Table 2–2: Materiality test	3
Table 2–3: Shared asset cost reduction	3

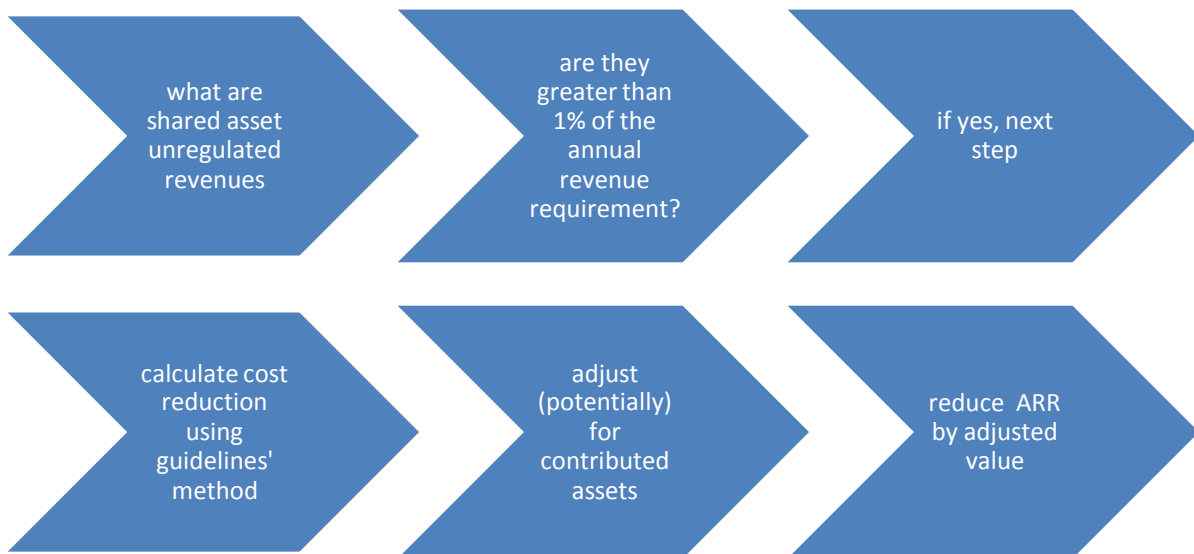
List of figures

Figure 1 – Cost reduction process	1
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1. OVERVIEW

1. This document describes the method used to determine unregulated revenue earned through the use of shared distribution assets and the subsequent shared asset cost reduction for JEN for the 2016 regulatory period.
2. JEN has followed the steps set out in the Australian Energy Regulator's (AER) Shared Asset Guideline (Figure 1) to determine the cost reduction to be applied to the annual revenue requirement (ARR).

Figure 1 – Cost reduction process



Source: AER, *Better Regulation – Shared Asset Guideline*, November 2013, p9

2. SHARED ASSET COST REDUCTION METHODOLOGY

3. JEN uses network assets to provide both electricity services which are regulated by the AER and other services that are unregulated. The network assets that are used to provide unregulated services are called 'shared assets'. An example is a power pole which supports a fibre optic cable for communications companies.
4. This section describes our approach to sharing the benefits with consumers when we are paid for providing unregulated services.

2.1 SHARED ASSET UNREGULATED REVENUE

5. JEN has identified three sources of unregulated revenue earned from shared assets. Shared asset unregulated revenue is earned from:
 1. Telecommunication companies such utilising distribution poles to support communication cables.
 2. Rental of optical fibres in SCADA cable to telecommunication companies.
 3. Providing unregulated watchman (**security beam**) security lighting services by utilising the distribution poles.
6. The shared asset unregulated revenue is calculated based on the smoothed annual revenue over the 2011 regulatory period. We expect shared asset unregulated revenue to remain flat over the 2016 regulatory period. The actual and forecast unregulated revenue earned from shared assets is set out in Table 2–1.

Table 2–1: Shared asset unregulated revenue (\$million \$2015)

Shared asset unregulated services	Forecast shared asset unregulated revenue				
	2016	2017	2018	2019	2020
Joint use of poles	2.096	2.096	2.096	2.096	2.096
Joint use of SCADA cables	1.045	1.023	1.002	0.982	0.961
Watchman (security beams)	0.257	0.257	0.257	0.257	0.257
Total shared asset unregulated revenue	3.398	3.376	3.355	3.335	3.314

2.2 MATERIALITY TEST AND COST REDUCTION

7. The next step in the process is to determine materiality of the shared asset unregulated revenue. The Shared Asset Guideline¹ states that the shared asset unregulated revenues is material when the a service provider's annual unregulated revenues from shared assets are expected to be greater than one percent of its total smoothed ARR for that regulatory year. The materiality test and proposed revenue decrement to the ARR is set in Table 2–2.

¹ AER, *Better Regulation – Shared Asset Guideline*, November 2013.

Table 2–2: Materiality test (\$2015)

Shared asset unregulated revenue	2016	2017	2018	2019	2020
Shared asset unregulated revenue (\$million)	3.4	3.4	3.4	3.3	3.3
Smoothed ARR (\$million)	256.9	259.7	258.8	263.1	267.5
Shared asset unregulated revenue as % of ARR	1.3%	1.3%	1.4%	1.3%	1.3%
Does it meet materiality threshold test of above 1% of ARR?	Yes	Yes	Yes	Yes	Yes

2.3 SHARED ASSET COST REDUCTION

8. In accordance with the Shared Asset Guideline,² JEN has calculated the decrement to the ARR by applying 10% to the shared asset unregulated revenue. The proposed revenue decrement to ARR is set out in Table 2–3.

Table 2–3: Shared asset cost reduction (\$2015)

Shared asset unregulated revenue	2016	2017	2018	2019	2020
Shared asset unregulated revenue (\$million)	3.4	3.4	3.4	3.3	3.3
Cost reduction percentage	10%	10%	10%	10%	10%
Proposed revenue decrement to ARR (\$million)	0.34	0.34	0.34	0.33	0.33

² AER, *Better Regulation – Shared Asset Guideline*, November 2013