AusNet Electricity Services Pty Ltd

Electricity Distribution Price Review 2016–20

Appendix 6A: Shared Assets

Submitted: 30 April 2015

1 Shared Assets

1.1 Introduction and Overview

This document sets out AusNet Services' proposed shared asset cost reductions for the 2016-20 regulatory control period. A shared asset is an asset whose costs were initially allocated to regulated services but has come to be used to provide unregulated services as well. The change from expected use means the asset is earning, or is expected to earn, both regulated and unregulated revenues.

Under NER 6.4.4(a), a reduction to the annual revenue requirement may be made to reflect such part of the costs of the asset that is recovered by using it to provide both standard control and unregulated services.

The cost reduction must be made in accordance with the shared asset principles (NER 6.4.4(c)), which are:

- The DNSP should be encouraged to use assets to provide unregulated services where efficient;
- The cost reduction should not be dependent on the DNSP deriving a positive commercial outcome for unregulated services provided using the shared asset;
- The cost reduction should be applied where there is material use of the asset to provide unregulated services;
- Regard should be had to how costs have been recovered or revenues reduced in the past with respect to the shared asset;
- The cost reduction must be compatible with the Cost Allocation Principles and the Cost Allocation Methodology; and
- Any cost reduction must be compatible with other incentives provided by the Rules.

The AER has published a Shared Asset Guideline outlining its proposed approach to making shared asset cost reductions. AusNet Services has relied on the Guideline to calculate the shared asset cost reduction.

1.2 Cost Reduction Methodology

The AER's Guideline sets out the following steps to establish the shared asset cost reduction:

- Determine the relevant unregulated revenues earned from shared assets.
- Determine whether shared asset unregulated revenues are material (exceed 1% of the proposed annual revenue requirement)
- If material, the cost reduction will equal 10% of total unregulated revenues from shared assets for each year of the regulatory control period, subject to:
    - the application of the control step (i.e. cap); and/or
    - any adjustments made to account for contributed assets.

The Guideline notes that service providers may propose alternative methods to calculate a cost reduction. If it does so, it should demonstrate that customers would be no worse off than the Guideline methodology under its approach.

AusNet Services has applied the Guideline methodology. The steps it has taken are set out below.

1.2.1 Relevant unregulated revenues from shared assets

AusNet Services' relevant unregulated revenues from shared assets are set out in the table below. Revenues associated with these services since 2006 are also reported in the RIN.

Table 1: Shared Asset Unregulated Revenues (SAUR) ($'000 2015)

$m (real $2015)	2016	2017	2018	2019	2020	Total
Asset Inspection Services	3,362	3,509	3,663	3,823	3,990	**18,346**
LVCT Testing	373	375	377	378	380	**1,883**
Non-Invasive Testing Services (Thermographic)	297	310	323	338	352	**1,620**
Fibre Optic Cable Leasing	488	490	492	481	470	**2,421**
Facilities Access Agreements (poles)	1,463	1,470	1,477	1,484	1,491	**7,384**
Leasing Access to communication equipment on AMI towers or monopoles	73	73	74	74	75	**369**
Leasing access to wireless equipment on distribution poles	319	327	334	343	351	**1,673**
Leasing wireless base stations installed monopole within zone substation	59	60	61	63	64	**307**
Site leasing	16	17	17	17	17	**84**
TOTAL	**6,450**	**6,630**	**6,818**	**7,000**	**7,190**	**34,088**

Apportionment has been applied to forecast shared asset revenues for fibre optic cable leasing. AusNet Services has fibre optic cables on both its distribution and transmission networks. The apportionment reflects the portion of revenue that is earned from shared assets on the distribution network, rather than the transmission network.

AusNet Services has apportioned unregulated revenue earned using the Fibre Optic Cable Leasing shared assets to the distribution network based on the estimated proportion of assets used to provide this service that are distribution assets. This is a fair way to allocate the shared benefits to the customers of respective networks. If this apportionment was not carried out, the Shared Asset Guideline could be applied to the same revenue stream twice: once in the electricity distribution review and again in the upcoming transmission review. This would effectively result in a cost reduction equal to 20% of the unregulated revenue streams, which is double the sharing ratio specified in the Guideline.

1.2.2 Materiality test

The Shared Assets Guideline specifies that the unregulated use of shared assets is material when the average is expected to be greater than 1 per cent of the total smoothed revenue requirement for that regulatory year.

AusNet Services' unregulated use of shared assets is expected to be material in all years of the regulatory control period. The results of the materiality assessment are shown in the table below.

Table 2: Materiality Assessment Outcome ($'000, real 2015)

$m (real $2015)	2016	2017	2018	2019	2020	Total
Proposed smoothed ARR	661.5	661.5	661.5	661.5	661.5	**3,307.3**
Average Annual SAUR	6.8	6.8	6.8	6.8	6.8	**34.1**
SAUR as % of ARR	1.03%	1.03%	1.03%	1.03%	1.03%	**1.03%**
Material?	**Y**	**Y**	**Y**	**Y**	**Y**	**N/A**

The control step outlined in the Shared Asset Guideline has not been applied by AusNet Services as the proposed cost reduction does not exceed the estimated value of the cap as defined in the Guideline.

1.2.3 Adjustment for contributed assets

The Shared Asset Guideline states that the AER will take into account evidence of consumers benefitting from assets upgraded or replaced by third parties when determining shared asset cost reductions[1]. AusNet Services proposes that its shared asset revenue decrement should be adjusted to recognise the benefits to customers of the following assets that have been gifted by third parties:

- **Fibre optic cable –** customers benefit from 74 fibre pairs gifted by a third party and used by AusNet Services to provide regulated services. This benefit arises due to the avoided opex which would otherwise be incurred as AusNet Services would lease bandwidth as an alternative communications solution, were the fibre optic cable not in place. This benefit is partially offset by increased opex incurred to maintain the fibre optic cable.

  Distribution poles – 725 distribution poles were contributed by a third party approximately 5 years ago on average. The customer benefit is the deferred cost of replacing these poles. Replacement of these poles is expected to occur 10 years later than would have been the case if their replacement had not been funded by the third party. This benefit will be realised approximately 35 years in the future. The future benefit of deferred replacement has been discounted by AusNet Services' proposed WACC to estimate the benefit today. The total benefits have been averaged evenly across all years of the period.

[1] AER, *Shared Asset Guideline,* December 2013, p. 9.

The estimated customers benefits associated with contributed assets are shown in the table below. For the purposes of calculating the shared asset cost reduction, AusNet Services proposes allowing consumers to share in the benefits from contributed assets by adjusting its proposed shared asset revenue decrement by 50% of the estimated benefit to customers.

Table 3: Consumer Benefits from Contributed Assets ($’000, real 2015)

$m (real $2015)	2016	2017	2018	2019	2020	Total
Distribution Poles	(73)	(73)	(73)	(73)	(73)	**(367)**
Fibre Optic Cable	(370)	(370)	(370)	(370)	(370)	**(1,850)**
Total	**(443)**	**(443)**	**(443)**	**(443)**	**(443)**	**(2,217)**

1.2.4 Shared Asset Cost Reduction

Consistent with the Guideline, the shared asset cost reduction has been calculated as 10% of the value of expected total relevant unregulated revenues from shared assets in that year, less the consumer benefits due to contributed assets.

The proposed shared asset cost reduction for the 2016-20 period is set out in the table below:

Table 4: Shared Asset Cost Reduction ($’000, real 2015)

	2016	2017	2018	2019	2020	Total
10% of relevant unregulated shared asset revenues	645	663	682	700	719	3,409
Less 50% of consumer benefits from contributed assets	(244)	(244)	(244)	(244)	(244)	(1,219)
Shared asset cost reduction	401	419	438	456	475	2,189

1.3 Summary

The impact of the shared assets cost adjustment on AusNet Services' proposed unsmoothed Annual Revenue Requirement is shown in the table below.

Table 5: Decrement from Shared Assets

$'000 (real $2015)	2016	2017	2018	2019	2020	Total
ARR	674,380	634,923	669,663	670,459	660,411	3,309,836
Shared asset cost reduction	401	419	438	456	475	2,189
Adjusted ARR	673,979	634,504	669,225	670,003	659,936	3,307,647