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

By email: costallocations@aer.gov.au

Dear Mr Pattas

Better regulation – Draft shared asset guidelines, July 2013

Jemena Electricity Networks (Vic) Ltd (**JEN**) appreciates the opportunity to make this submission in response to the Australian Energy Regulator's (**AER**) draft shared asset guidelines for electricity distribution and transmission.

JEN supports the AER's approach to the development of the shared asset guidelines giving primacy to the cost allocation methodology. We recognise that the draft guideline is a pragmatic approach to meet the shared asset requirements (6.4.4(a) and (b)) in the National Electricity Rules.

JEN has contributed to and supports the submission that the Energy Networks Association has made in response to the draft shared asset guidelines.

JEN's key messages are:

1. JEN considers the draft shared asset guidelines provides certainty and clarity and would be simple to apply thus minimising administrative costs.

2. We support the AER's proposed 1 per cent 'material use' threshold, before shared asset cost reduction is made to the annual required revenue – that is, no shared asset cost reduction will be applied if the total unregulated revenues earned from shared assets are equal or less than1 per cent annual revenue requirement.

3. JEN welcomes the AER's recognition[1] that benefits accrue to customers from regulated assets contributed by third parties and there may be grounds for reducing cost reduction values, subject to the evidence being provided.

4. JEN accepts the cost reduction method[2] outlined in the draft guidelines. The AER's proposed method reduces the annual revenue requirement by around 10 per cent of

[1] Draft shared asset guidelines, section 4.4, p13

the value of unregulated revenues earned with shared regulated assets. We agree with the AER that the proposed sharing proportion strikes a reasonable balance given the following:

- The AER accepts that service providers incur additional costs in providing unregulated services using existing regulated assets[3], but these costs would not be accounted for in making shared asset cost reduction to the annual revenue requirement.

- One of the key shared asset principles is that service providers should be encouraged[4] to use assets that provide standard control services to provide unregulated services. If the sharing portion is skewed too much towards the customers, then it undermines a service provider's incentive to grow the unregulated services. JEN supports the AER's remarks[5] on this very important principle:

    - *"Indeed, retaining a reasonable incentive for ongoing provision of unregulated services is key to the ongoing sharing of benefits with consumers."*

    - *"Finally, in proposing our 10 per cent approach, we have taken into account the societal benefits provided by unregulated services using electricity network assets. Services, for example, such as telephony, internet and other telecommunications products have significant value to the community more broadly. Electricity infrastructure is a least cost mode of delivery for many services. We seek to retain reasonable conditions for the ongoing use of network assets to continue to produce these other social benefits."*

5. We consider the proposed level of annual reporting requirement is reasonable.

JEN has suggested a minor correction to the draft guideline in Annexure 1.

If you wish to discuss this submission, please contact Siva Moorthy, Manager Network Regulation and Strategy, on 03 8544 9442 or myself on 03 8544 9053.

Yours sincerely

Robert McMillan
General Manager Regulation

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[2] Draft shared asset guidelines, section 4.1, p12
[3] Explanatory statement, p.25
[4] NER, clause 6.4.4 (c)(1)
[5] Explanatory statement, p.25

Annexure – 1

Jemena notes in section 3.2 of the draft guideline, the AER states use of shared assets is material "when a service provider's annual unregulated revenues from shared assets are expected to be equal to or greater than 1 per cent of the total annual revenue requirement…" However, in section 2.5 the AER states it would make cost reductions when "unregulated revenues from shared assets are expected to exceed 1 per cent of regulated revenues from shared standard control services."

We suggest "…exceeds 1% of the annual revenue requirement…" as that would be consistent with the definition in the chapter 10 of the NER.