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13 September 2013

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,

Draft Shared Asset Guidelines

NBN Co welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Draft Shared Asset Guidelines (Draft Guidelines).

As noted by the AER in its Explanatory statement (p.25), there are societal benefits provided by unregulated services using electricity network assets, and electricity infrastructure is a least cost mode of delivery for many services. NBN Co supports the AER's intention to "retain reasonable conditions for the ongoing use of network assets to continue to provide these other social benefits".

Consistent with the views expressed in its earlier submissions, NBN Co supports a number of aspects of the Draft Guidelines, including:

- the materiality threshold, which is crossed for a given regulatory year when a service provider's annual unregulated revenues from shared assets are expected to be equal to or greater than 1 per cent of its total annual revenue requirement for that year;
- the treatment of contributed assets, which allows a service provider to provide evidence to the AER of electricity consumer benefits accruing from assets contributed by third parties and may be grounds for reducing cost reduction values; and
- the benefit sharing proportion, which is set at 10 per cent.

In practice, NBN Co considers the Draft Guidelines are consistent with service providers having positive and reasonably robust financial incentives to pursue unregulated revenues from the use of electricity network assets.

However, in principle, NBN Co considers the incentive properties of the Draft Guidelines could be improved by:

- applying the benefit sharing proportion to only that part of shared asset unregulated revenues that is above the materiality threshold (rather than to the total of such revenues) – this would limit the possible financial disincentive to pursue incremental increases in unregulated revenues when a service provider is close to the materiality threshold; and

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- allowing a service provider to provide evidence to the AER in regard to the expected incremental costs that the service provider factored into its decision to provide the relevant unregulated services, which may be grounds for the AER to reduce cost reduction values – this would limit the possible financial disincentive to provide unregulated services that are not expected to make a significant margin above incremental costs. Focussing on prior expectations rather than current values or forecasts of incremental costs would also avoid any transfer of commercial risks to electricity consumers.

If it would assist the AER, we would be pleased to meet and discuss any aspect of this submission. To arrange for this, or if you have any questions about this submission, please contact Matthew Cole on 03 9601 5231 or mattewcole@nbnco.com.au.

Yours sincerely

Caroline Lovell

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Head of Regulatory Affairs & Industry Analysis

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