

Better Regulation: Shared asset guideline

Our shared asset guideline outlines how consumers will benefit from the other services electricity network businesses may provide using the assets consumers pay for.

What is a shared asset?

Electricity network businesses may use assets to provide both electricity services we regulate and other services we do not regulate. These assets are called 'shared assets'.

An example of a shared asset is a power pole, paid for by electricity consumers, which also supports a fibre optic cable for communications services. We regulate electricity supply but not communications services. So the power pole is a shared asset.

When an electricity network company invests in a new asset, like a power pole, its cost is added to the business' regulatory asset base. The return that the network business earns on the asset base is recovered from customers.

If a business is also paid for providing unregulated services, like carrying the communications cable on the power pole, they are essentially being paid twice for the same asset.

What is the shared asset guideline?

The shared asset guideline sets out our approach to sharing the benefits with consumers when a network business is paid for providing unregulated services. We will reduce the amount that business can recover from electricity consumers to reflect the unregulated revenues.

Network businesses have the opportunity to propose alternative approaches. However, we will be unlikely to accept alternatives if they leave consumers worse off than under our approach in the guideline.

Consumers pay for regulated electricity supply assets. They will now share in the benefits when businesses use these regulated assets for unregulated purposes.

What's in the shared assets guideline?

The guideline sets out how we reduce consumer costs for shared assets:

- **Materiality:** we will take action when the unregulated revenues from shared assets are more than 1 per cent of a service provider's total annual revenue
- **Method:** we will reduce a service provider's regulated revenues by around 10% of the value of unregulated revenues earned from shared assets
- **Information reporting:** what we'll require from service providers to determine shared asset cost reductions.

Our shared asset mechanism forecasts the annual unregulated revenue that a network business is expected to earn from shared assets.

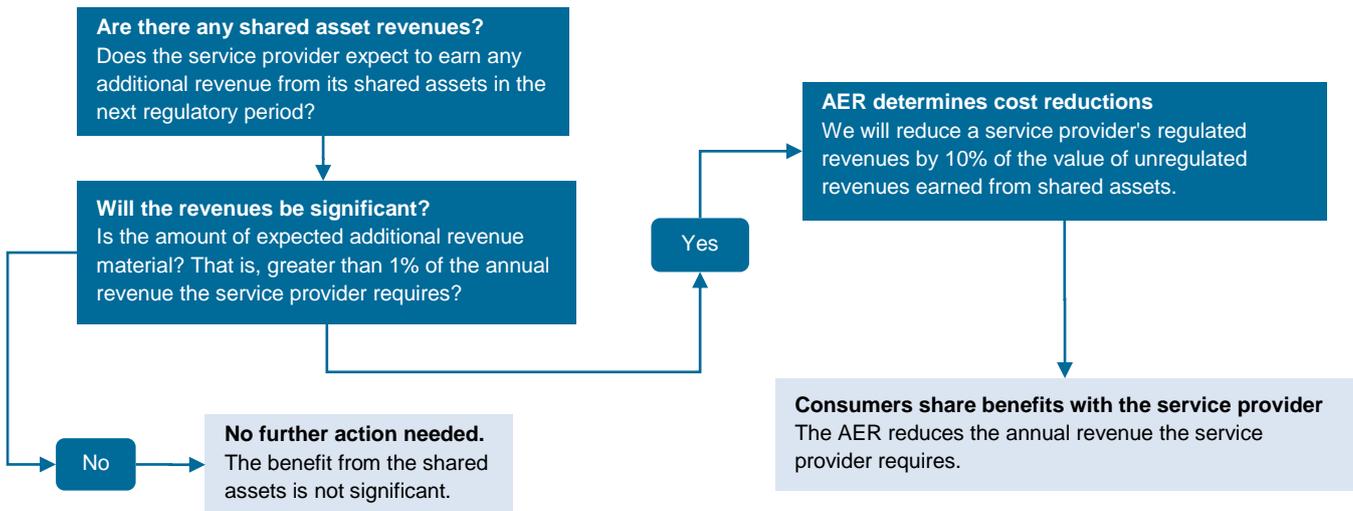
This forecast is then compared to the revenue that is required to provide regulated services. If the total unregulated revenue is expected to be greater than 1 per cent of the regulated revenue, we'll apply a cost reduction.

This clear and transparent materiality threshold balances administrative effort with potential consumer benefits.

The cost reduction will reduce a network business' regulated revenue by 10 per cent of the value of its expected total unregulated revenues from shared assets in that year. This reduces the amount to be recovered from consumers and consequently electricity prices.

The potential value of the cost reduction is capped by the electricity rules, so that the reduction cannot exceed the regulated revenue from those assets.

How consumers and service providers will benefit from shared assets



What information do we need from businesses?

We'll collect from businesses annually:

- a list of the unregulated services they provide with shared assets
- the total unregulated revenue from shared assets.

As part of our revenue determination for a business we'll collect descriptions of the shared assets it used to provide unregulated services, and the services it forecasts to be provided.

We may also seek an overview of the contracts under which the business earns shared asset unregulated revenues.

More information

The shared asset guideline is available on our website at <http://www.aer.gov.au/node/18878>.

This guideline forms part of the Better Regulation program. We initiated this program following changes to the regulatory framework in late 2012. The program includes seven new guidelines that outline our revised approach to determining electricity network revenues and prices, and our establishment of the Consumer Challenge Panel. For more information on the Better Regulation program please visit our website www.aer.gov.au/better-regulation-reform-program.