



Arrangements across service classifications

Public forum on Contestability of energy Services: 25 January 2017

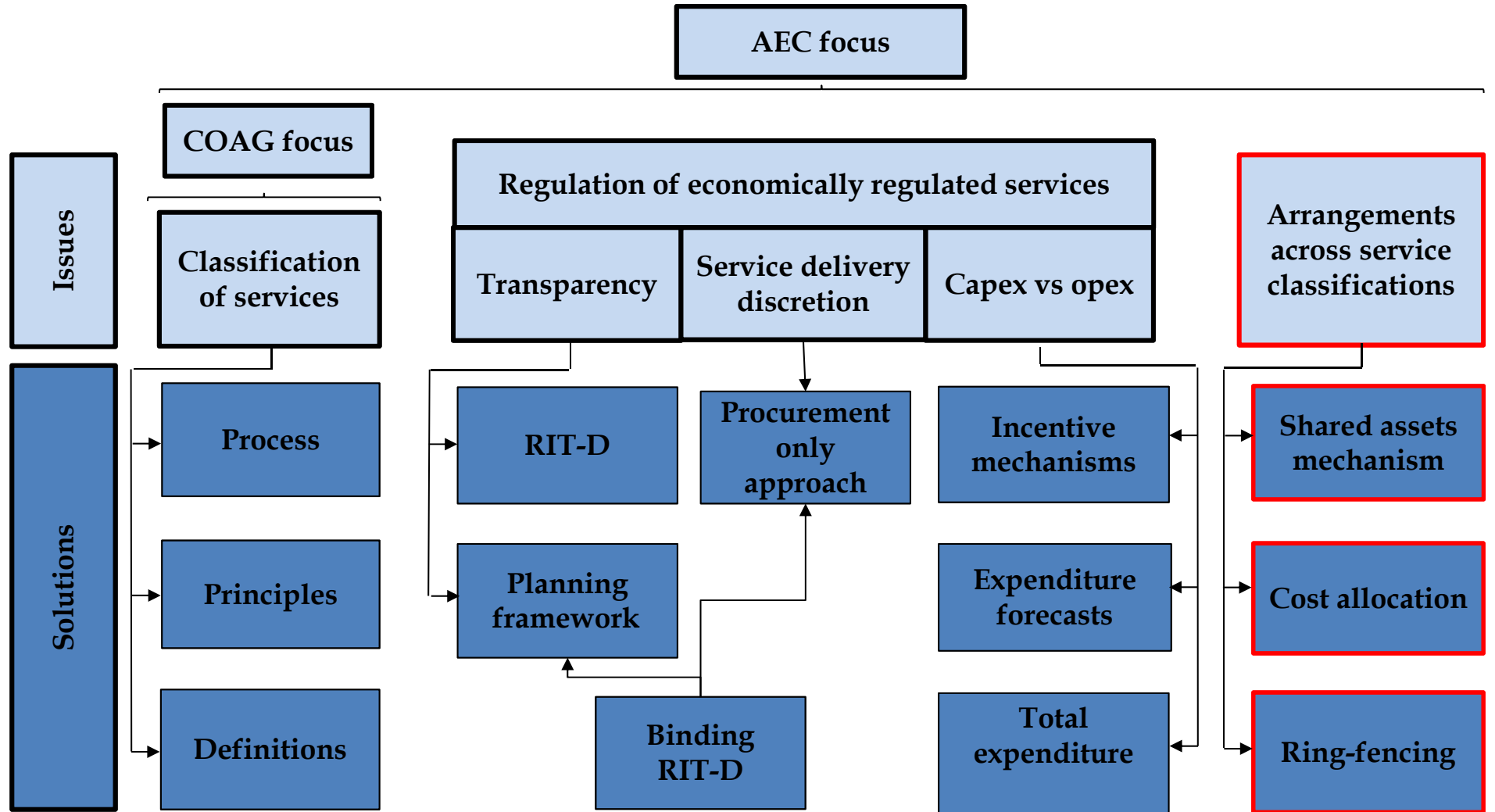


Ben Davis

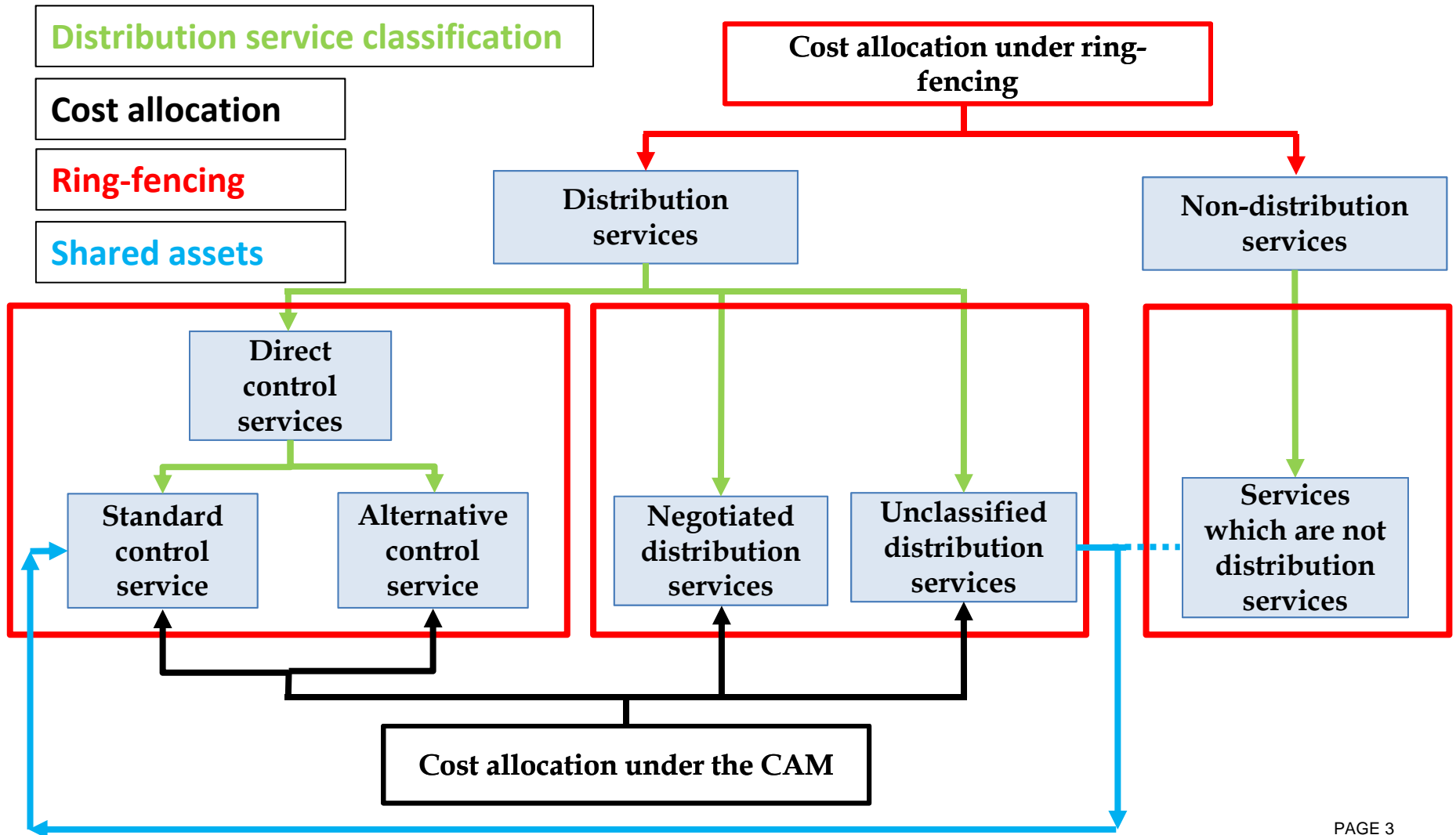
Senior Adviser

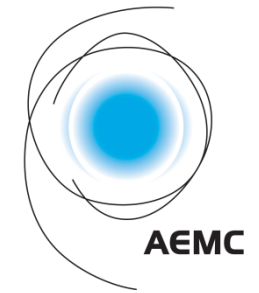
AUSTRALIAN ENERGY MARKET COMMISSION

Focus



Overview





Shared assets



Shared assets – What and why

- What are shared assets?
 - Definition
 - Examples
- Why are there specific regulations for shared assets?
 - Actual use varies from expected use
 - Stops consumer paying twice

Shared assets – existing arrangements

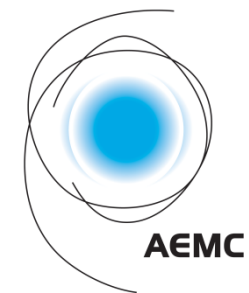
- What is the process?
 - Principles
 - Guideline
 - Revenue determination
- What are the requirements?
 - 10% revenue reduction
 - forward looking
 - 1% materiality threshold

Shared asset – SAPN revenue proposal

	Calculation	2015/16	2016/17	2017/18	2018/19	2019/20
Step 1	Annual revenue requirement (\$m)	901.8	924.8	948.4	972.6	997.4
Step 2	Average shared asset unregulated revenue (\$m)	9.6	9.6	9.6	9.6	9.6
Step 3	Average shared asset unregulated revenue as a proportion of the annual revenue requirement (%)	1.07	1.04	1.02	0.99	0.97
	Meets the materiality threshold (Y/N)	Y	Y	Y	N	N
Step 4	Shared asset cost reduction	0.963	0.963	0.963	-	-

Shared assets – the rule change requests

- The AEC considers that the shared asset guideline skews the up-front incentive for DNSPs to invest in assets that can provide both direct control services and other services.
- The AEC does not propose any changes to the shared asset provisions within the NER to address this issue. However, the AEC considers this a further justification for its proposed changes that would require DNSPs to only procure network support, demand response or inputs from assets located ‘behind the meter’ from the competitive market.



Cost allocation



Cost allocation – what and why?

- What is cost allocation?
 - Definition
 - Distribution services
 - Non-distribution services
- Why is cost allocation important?
 - Revenue allowances
 - Competition

Cost allocation – process and requirements

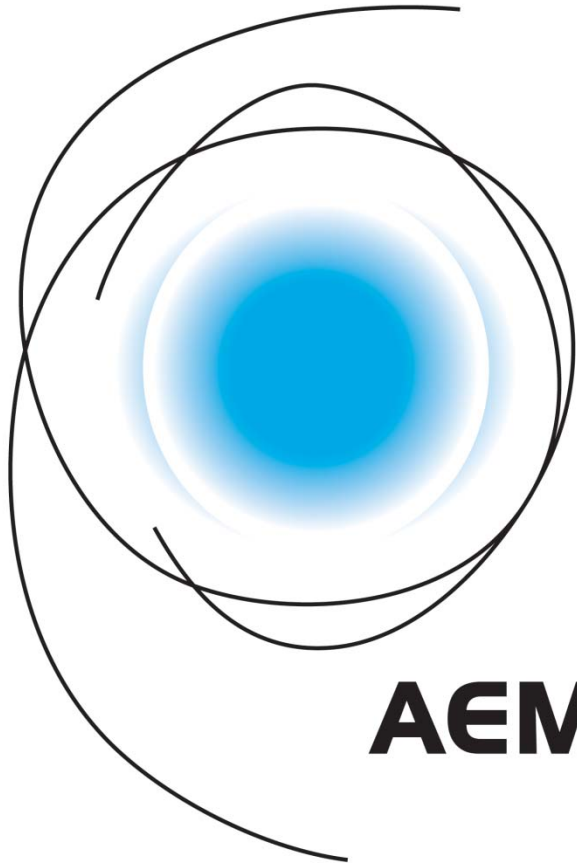
- What is the process?
 - Guideline
 - Cost allocation methodology
 - Application
- What are the requirements?
 - Detailed principles and policies
 - Attributable or allocated

Cost allocation

- The AEC considers that:
 - the cost allocation principles outlined in the NER offer little guidance beyond high level generic principles; and
 - cost allocation relating to assets that can provide network support and demand response might be deemed efficient under the current principles when, in fact, they are not.
- The AEC considers that changes are necessary to the cost allocation provisions in the NER.
- The AEC does not propose specific changes to the NER, but notes that they should include new principles, developed in consultation, for the allocation of costs for assets that can provide both direct control services and network support or demand response.

Questions – cost allocation and shared assets

- Shared assets - “Do the shared asset requirements provide efficient incentives for DNSPs to invest in assets that can provide both direct control services and other services? If not:
 - i. What is the source of the issue?
 - ii. What is the extent of the issue?
 - iii. Provide examples?
- Cost allocation - “Does the combination of the cost allocation principles in the NER, the AER's cost allocation guideline and the DNSPs' CAM provide for efficient cost allocation in relation to assets that provide network support, demand response or are located behind?”



AEMC