



February 2025

Cost Allocation Methodology

Making electricity accessible for all.

1 Cost Allocation Methodology 2025

Enquiries concerning Ausgrid's Cost Allocation Methodology should be addressed to:

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This Cost Allocation Methodology is version 2.2. The date of commencement is 1 July 2025.

## Document History

| Version no. | Date of Revision | Details of Amendments  |
|-------------|------------------|--|
| <b>1.0</b>  | June 2012        | Initial Draft  |
| <b>1.1</b>  | July 2012        | Submitted CAM withdrawn at AER's request   |
| <b>1.2</b>  | June 2013        | Draft revised CAM for submission to AER  |
| <b>1.3</b>  | November 2013    | CAM amended to provide further details requested to the AER  |
| <b>2.0</b>  | September 2022   | Revised CAM submitted to AER for approval  |
| <b>2.1</b>  | October 2022     | CAM amended with revised commencement date   |
| <b>2.2</b>  | February 2025    | CAM amended with updated organisational structure and to incorporate NSW REZ activities as a new service |

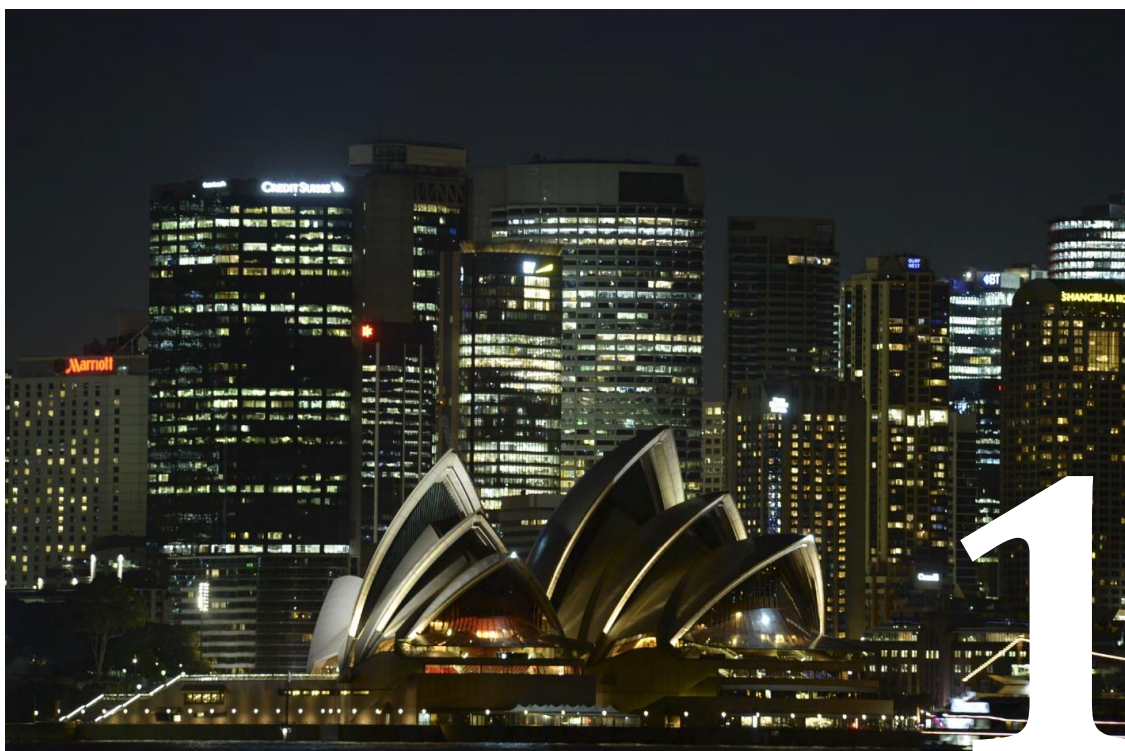
## 2 Cost Allocation Methodology 2025

## Abbreviations

| Shortened Form | Extended Form   |
|----------------|---|
| ACS            | Alternative Control Services  |
| AER            | Australian Energy Regulator   |
| CAG            | Cost Allocation Guidelines  |
| CAG-EII        | Cost Allocation Guideline – Electricity Infrastructure Investment Act (draft) |
| CAM            | Cost Allocation Methodology   |
| Capex          | Capital Expenditure   |
| CEO            | Chief Executive Officer   |
| CFO            | Chief Financial Officer   |
| DCS            | Direct Control Services   |
| DNSP           | Distribution Network Service Provider   |
| EII            | Electricity Infrastructure Investment   |
| EII Act        | Electricity Infrastructure Investment Act 2020 (NSW)                          |
| ERP            | Enterprise Resource Planning  |
| GE             | Group Executive   |
| HCC REZ        | Hunter-Central Coast Renewable Energy Zone                                    |
| ICT            | Information, Communication and Technology                                     |
| NER            | National Electricity Rules  |
| Opex           | Operating Expenditure   |
| RAB            | Regulatory Asset Base   |
| RIN            | Regulatory Information Notice   |
| SCS            | Standard Control Services   |
| WAR            | Weighted Average Revenue  |

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## 1. Background

### 1.1 Company Profile

Ausgrid is the largest distributor of electricity on Australia's east coast, providing power to 1.8 million customers. Ausgrid's network is made up of substations, powerlines, underground cables and power poles, spanning 22,275 square kilometres throughout Sydney, the Central Coast and the Hunter Valley.

Ausgrid controls, operates and manages the distribution network under a 99-year lease arrangement with the New South Wales (**NSW**) State Government. A consortium comprising IFM Investors, AustralianSuper and APG Asset Management (**APG**) holds 50.4% partnership interest in Ausgrid, and the NSW State Government (through entities established in accordance with the Electricity Retained Interest Corporation Act 2015 (NSW)) holds 49.6% partnership interest.

Whilst Ausgrid's electricity network comprises mainly distribution assets, a small portion of this network comprises high-voltage dual function assets that operate in parallel and provide support to the higher voltage transmission network in NSW. Ausgrid's electricity network includes:

- A sub-transmission system of 33kV, 66kV and 132kV assets;
- A high-voltage distribution system of 5kV, 11kV and 22kV assets; and
- A low-voltage distribution system of 240V and 415V assets.

In addition to the core distribution network, Ausgrid also controls, operates and manages the Hunter-Central Coast Renewable Energy Zone (**HCC REZ**) distribution network.

Ausgrid delivers its regulated and unregulated distribution services and EII activities through seven business groups as illustrated in blue in **Figure 1** below. A separate business called PLUS ES within the Distributed Services and PLUS ES business group provides a targeted suite of services that are not distribution services or EII activities.<sup>1</sup> The organisation is overseen by the Chief Executive Officer (**CEO**). Further details on Ausgrid's organisational structure can be found in Appendix 1.



## 1.2 Nature, scope and purpose

The purpose of this Cost Allocation Methodology (**CAM**) is to outline Ausgrid's approach to attributing or allocating costs:

- to the distribution services it provides in accordance with the National Electricity Rules (NER) and the Australian Energy Regulator's (**AER**) Cost Allocation Guidelines (**CAG**); and
- between regulated activities under the *Electricity Infrastructure Investment Act 2020 (NSW)* (EII Act), NER regulated services and other services in accordance with the EII Act and the AER's Draft Cost Allocation Guideline – Electricity Infrastructure Investment Act (**CAG-EII**).

In particular, this CAM satisfies the following obligations:

<sup>1</sup> PLUS ES is also a separate legal entity. Ausgrid complies with the current ring-fencing requirements as set out in the Electricity Distribution Ring-fencing Guidelines (Ringfencing Guidelines) made under clause 6.17.2 of the National Electricity Rules (NER). Further details on Ausgrid's ring-fencing compliance can be found here: [Ring-fencing – Ausgrid](#)

<sup>2</sup> Group Executive

- Clause 6.15.4(a) of the NER and clause 6A19.4(a) of EII Chapter 6A<sup>2</sup>, which each require Ausgrid to submit for the AER's approval a document setting out Ausgrid's proposed approach to cost allocation;
- Section 2.2 of the CAG, which outlines the requirements applicable to a Distribution Network Service Provider (**DNSP**) with respect to the development of principles and policies for attributing or allocating costs between distribution services categories;
- Section 2.1 of the CAG-EII which outlines the requirements applicable to a Network Operator with respect to the development of the principles and policies for attributing or allocating costs between EII regulated activities, NER regulated services and other services; and
- Section 3.2 of the CAG and section 3.1 of the CAG-EII, which outline the mandatory information that must be included in the CAM.

In accordance with clause 6.15.1 of the NER and clause 6.19.1 of the EII Chapter 6A, Ausgrid will comply with the AER-approved CAM including for the development of:

- operating and capital expenditure forecasts and regulatory reporting purposes, as outlined in Section 5.1(b) of the CAG; and
- revenue proposals for EII activities, as outlined in Section 5.1 of the CAG-EII.

This CAM also complies with the current ring-fencing requirements as set out in the AER's Ring-fencing Guidelines made under clause 6.17.2 of the NER and the AER's Draft Legal and Functional Separation Guideline made under the *Electricity Infrastructure Investment Regulation 2021 (NSW)* (**EII Regulation**).

On approval, Ausgrid will publish a copy of this CAM on Ausgrid's website ([www.ausgrid.com.au](http://www.ausgrid.com.au)) as required by clause 6.15.4(h) of the NER and clause 6A.19.4(h) of the EII Chapter 6A.

### 1.3 Effective date

This CAM, once approved by the AER, will take effect on 1 July 2025 and will remain in place until replaced with a new version approved by the AER.

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<sup>3</sup> AER, Appendix A (EII Chapter 6A), Transmission Efficiency Test and revenue determination non-contestable guideline, July 2024





## 2. Services

### 2.1 Distribution Services

Ausgrid's core business is the provision of distribution services. Distribution services are categorised under the NER as:

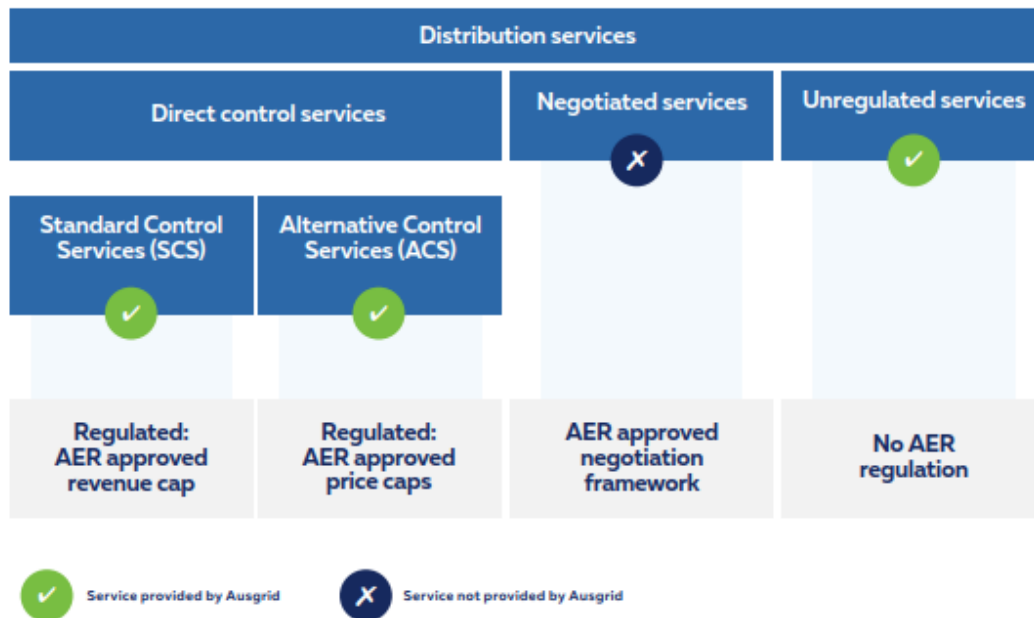
- Direct Control Services (**DCS**), which are sub-categorised as:
  - Standard Control Services (**SCS**) – includes core network services such as the planning, design, repair, maintenance, construction and operation of the network, training staff to perform work on the network and deploying and operating distributor-led Stand Alone Power Systems (**SAPS**). These services are provided to all end-users of the network. The costs for providing these services are recovered via network tariffs that are approved by the AER.
  - Alternative Control Services (**ACS**) – includes customer and third party initiated services related to the distribution network such as the provision of public lighting, type 5 and 6 metering services and ancillary network services. The prices for providing these services are capped by the AER.
- Negotiated Distribution Services are services categorised by the AER as able to be negotiated between Ausgrid and its customer(s). These services are subject to a negotiation framework that is approved by the AER.
- Unregulated services include distribution services that are not classified by the AER, and includes services such as distribution asset rental and the provision of



training to third parties for non-network related access. Ausgrid sets prices for these services without involvement from the AER.

Ausgrid provides SCS, ACS and unregulated distribution services, but does not provide negotiated distribution services.

Figure 2: Distribution services



Ausgrid also owns some high voltage assets which are classified as dual function assets under the NER. Dual function asset services are included in SCS. The application of this CAM to dual function asset services is set out in section 3.5.

## 2.2 EII regulated activities

Ausgrid is also a Network Operator under the EII Act and undertakes EII regulated activities. These EII regulated activities, which are subject to separate revenue determination(s) by the AER under the EII Act, include the provision of network services within REZs in NSW.



## 3 Cost Allocation Approach and Methodology

### 3.1 CAM principles

Ausgrid's CAM has been prepared in accordance with the Cost Allocation Principles contained in section 6.15.2 of the NER and section 6A.19.2 of the EII Chapter 6A. Specifically:

- The detailed principles and policies used by Ausgrid to allocate costs between the different categories of distribution services and EII regulated activities are contained in this document, and are described in sufficient detail to enable the AER to replicate the reported outcomes through the application of the principles and policies;
- The allocation of costs has been determined according to the substance of a transaction or event rather than its legal form;
- Costs allocated to a particular category of distribution service or EII regulated activity are either:
  - Costs that are directly attributable to the provision of those services; or
  - Costs that are not directly attributable to the provision of those services but that are incurred in providing those services and that are allocated using an appropriate allocator;
- The reasons for using the method of the chosen allocator, and the numeric quantity (if any) of the chosen allocator, is clearly described in this document;

- The same costs are not allocated more than once;
- The principles, policies and approach used to allocate costs are consistent with the Distribution Ring-Fencing Guidelines and the AER's Legal and Functional Separation Guideline; and
- Costs that have been allocated to a particular distribution service will not be reallocated to another distribution service during the course of a regulatory control period.

### 3.2 Overview of cost allocation approach

Ausgrid captures costs using an Enterprise Resource Planning (**ERP**) system. Every cost is assigned to a final Cost Object, which is the lowest level at which costs are aggregated and captured against the activities Ausgrid undertakes to provide services. Cost Objects identify and define operating and capital expenditure in accordance with Australian Accounting Standards.

While Cost Objects are used to capture and report expenditure, the nature of the specific costs incurred by Ausgrid are categorised according to cost elements. Cost elements capture cost categories such as:

- Labour (normal pay, overtime and labour on-cost such as superannuation, workers compensation, sick leave, long service leave and annual leave);
- Materials;
- Contracted services; and
- Other (this includes items such as vehicle expenses, property expenses, IT expenses, professional services, insurance and taxes).

These cost categories are common to both operating and capital expenditure. A Cost Object can incur different types of costs relating to multiple cost elements that make up the total expenditure for the particular Cost Object. The result is that costs accumulate in final Cost Objects and it is these Cost Objects that are then either:

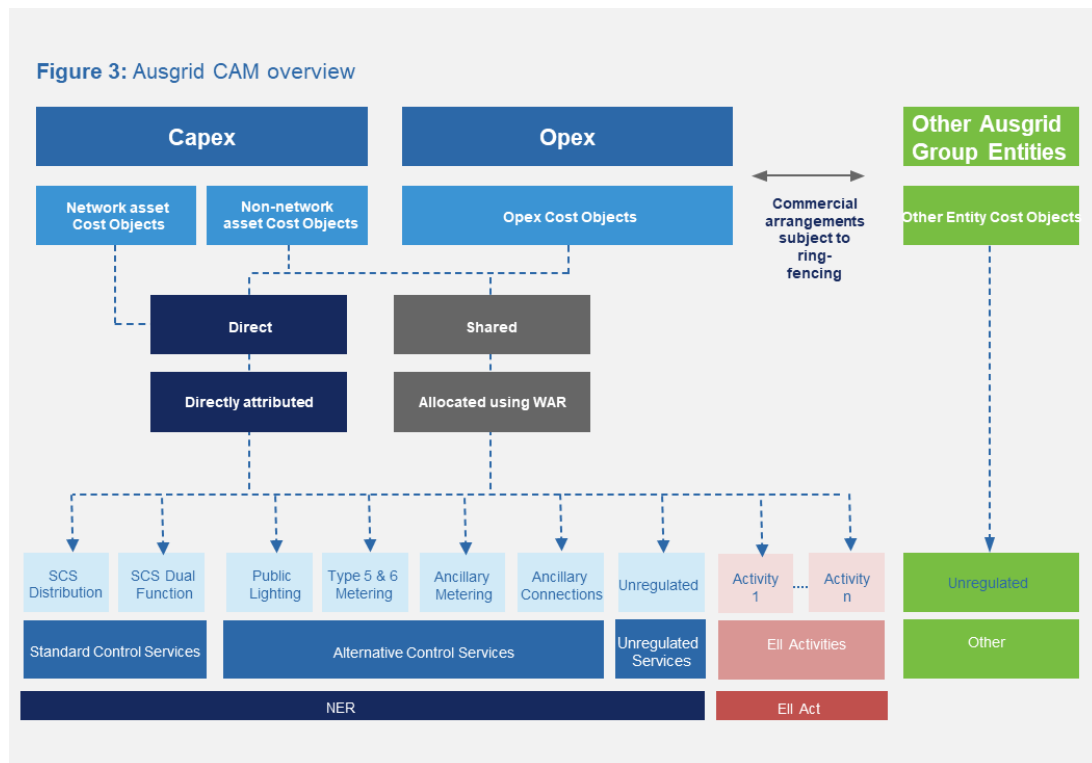
- Directly attributed to the relevant distribution service category (SCS<sup>4</sup>, ACS or unregulated) or EII regulated activity; or
- If they cannot be directly attributed, allocated to the relevant distribution service category or EII regulated activity using a shared cost allocator. Ausgrid uses a weighted average revenue (**WAR**) allocator to allocate costs that cannot be directly attributed to a distribution service category or EII regulated activity.

A cost can only be either directly attributed to a distribution service category, or allocated to a distribution service category, and cannot be allocated more than once.

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<sup>4</sup>SCS costs are further attributed to, or allocated between, SCS distribution and SCS dual function in accordance with the process set out in section 3.5.

The graphic below illustrates this process at a high-level.



### 3.3 Directly attributable costs

Wherever possible, costs (via Cost Objects) are directly attributed to the relevant distribution service category or EII activity.

Cost Objects where operating expenditure is accumulated are assessed to determine if these costs can be directly attributable to a distribution service category or EII activity. This assessment is completed at the time the Cost Object is initially set up in the ERP and is subject to review where there are service classification changes. Using the attributes specific to each Cost Object, or the nature and source of the expenditure (and therefore based on the substance of the underlying transactions), Ausgrid identifies those Cost Objects that can be directly attributed to a specific distribution service category or EII activity.

The following procedures are applied to identify and directly attribute capital expenditure:

- Capital expenditure on network assets<sup>4</sup> is directly attributed to either SCS, ACS or EII activity. Each network asset has a distribution service category or EII activity assigned to it in the ERP system which enables direct attribution.
- Capital expenditure on non-network assets which directly and entirely supports the provision of SCS, ACS, unregulated distribution services or EII activities, are attributed to SCS, ACS, unregulated distribution services or EII activities, respectively. Other non-network capital expenditure is allocated between SCS, ACS, unregulated services and EII Activities as outlined in section 3.4.

### 3.4 Allocated costs

Once all directly attributable Cost Objects have been identified and attributed to the relevant distribution service category or EII activity, the remaining Cost Objects are considered to be shared costs (operating and capital). Every Cost Object is reviewed and, depending on the characteristics of the shared Cost Object, Ausgrid applies one of two cost allocators as outlined in Table 1.

*Table 1: Overview of shared cost allocators*

| Allocator  | Description   |
|--|---|
| Weighted average revenue ( <b>WAR</b> ) cost allocator | 1. WAR including revenue earned from providing unregulated services to other parties <sup>5</sup> |
|  | 2. WAR excluding revenue earned from providing unregulated services to other parties              |

#### *Choosing the relevant allocator*

To determine which allocator is applied to a shared Cost Object, the following approach is taken:

- WAR including revenue earned from providing unregulated services to other parties is used to allocate shared costs that support the entire business. Examples include Legal, Finance and Insurance costs.
- WAR excluding revenue earned from providing unregulated services to other parties is used to allocate shared costs that only support the regulated (SCS, ACS and EII activities) part of the business. Examples include Contact Centre and Regulatory team costs.

<sup>5</sup> Network assets are those assets that form the distribution, dual function asset or public lighting network.

<sup>6</sup> For clarity, this does not include unregulated revenue earned by PLUS ES because PLUS ES revenue is not associated with the provision of distribution services.

### Calculation of allocators

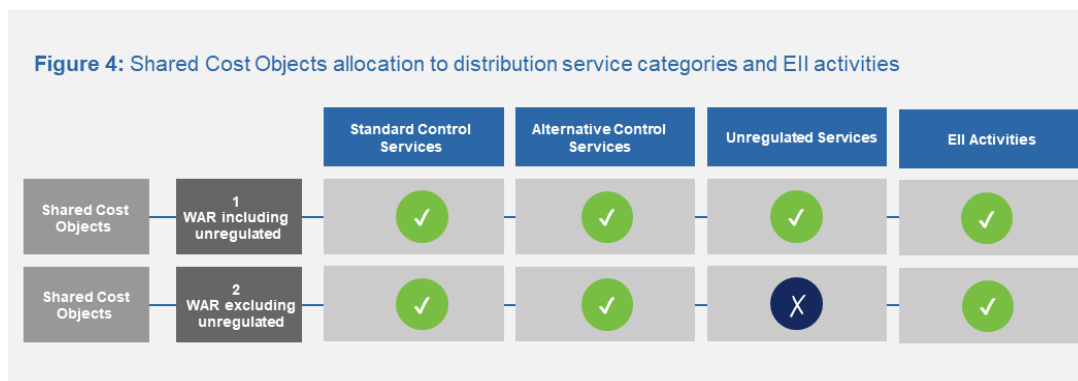
Weighted average revenue is calculated using actual revenue for the relevant year (excluding capital contributions).

#### 1. WAR including revenue earned from providing unregulated services to other parties

Includes SCS revenue, ACS revenue, EII activity revenue and revenue earned from providing unregulated services to other parties for facilities access, property rental and services provided to PLUS ES. This allocator is used to allocate shared costs that support the entire business.

#### 2. WAR excluding revenue earned from providing unregulated services to other parties

Includes SCS revenue, ACS revenue and EII activity revenue only. This allocator is used to allocate shared costs that only support the regulated (SCS and ACS) distribution service categories and regulated EII activities.



### 3.5 Treatment of dual function asset service costs

The separation of SCS costs between SCS distribution and SCS dual function asset is performed by identifying the relationship between:

- The nature of the cost captured by each Cost Object; and
- The asset classes that are classified under the NER as either distribution network assets or dual function network assets.

The specific procedures applied to disaggregate SCS costs are set out below.



*Operating expenditure*

The disaggregation of total SCS operating expenditure between SCS distribution and SCS dual function asset is performed using two allocation methods. These methods are:

- a) Direct attribution to SCS distribution or SCS dual function asset of costs that specifically relate to these services. For example, costs incurred in the maintenance of distribution overhead cables are directly attributed to SCS distribution;
- b) Operating expenditure which cannot be directly attributed in accordance with a) above is allocated between SCS distribution and SCS dual function asset based on the Regulated Asset Base (**RAB**) value of distribution assets and dual function assets as a proportion of total assets. For example, operating expenditure incurred by corporate functions is allocated between SCS distribution and SCS dual function asset based on the proportion of distribution and dual function asset RAB values.

The allocation percentage for method b) above is calculated at the beginning of each regulatory control period based on RAB forecasts and remains constant throughout the period.

*Capital expenditure*

The disaggregation of total SCS capital expenditure between SCS distribution and SCS dual function asset is performed using two allocation methods. These methods are:

- a) Capital expenditure on network assets is directly attributed to either SCS distribution or SCS dual function asset based on the type of asset constructed and whether the asset is considered a distribution or dual function asset in accordance with the definitions set out in the NER; and
- b) Capital expenditure on non-network assets is allocated between SCS distribution and SCS dual function asset based on the RAB value of distribution assets and dual function assets as a proportion of total assets.

The allocation percentage for method b) above is calculated at the beginning of each regulatory control period based on RAB forecasts and remains constant throughout the period.



## 4 Record Maintenance and Compliance

### 4.1 Record maintenance

Records and working papers include:

- Source financial records contained within the Ausgrid's ERP;
- Source invoices, general ledger reports, trial balances, transaction listings and financial reports;
- Regulatory Information Notice (**RIN**) responses, supporting approvals and audit opinions; and
- The cost allocation model, allocators and working papers which support the direct attribution or allocation of costs to, or between, categories of distribution services and EII activities.

These records are maintained and protected in accordance with Ausgrid's recordkeeping and data backup and recovery policies and procedures.

### 4.2 Compliance monitoring

Ausgrid has implemented a number of processes and controls to monitor compliance with the approved CAM. Through these processes and controls, Ausgrid will satisfy itself that Cost Objects have been correctly attributed to the relevant service category and that the cost allocators have been correctly calculated and applied in a manner which reflects the methodology outlined in this CAM.

*Regulatory Information Notices (RINs) and external audit*

Templates, documentation and working papers relating to the development of Ausgrid's RIN responses are reviewed annually by the Finance and Regulatory teams during the preparation of the annual RINs. RIN responses are also reviewed and endorsed by Ausgrid management (by way of a statutory declaration from the CEO) and are subject to an explicit requirement that RIN responses are prepared in accordance with the approved CAM. In addition, financial information included in the annual RINs is subject to an external audit in accordance with Australian Auditing Standards, which includes an assessment of the attribution and allocation of costs in accordance with the approved CAM.

*Processes and procedures*

In accordance with clause 2.2.1(b) of the CAG and 2.1.1(2) of the CAG-EII, Ausgrid reviews and recalculates cost allocation percentages on an annual basis. Ausgrid performs this as part of its annual Line of Business (**LOB**) review process in which it evaluates both the mapping of Cost Objects as either directly attributed or allocated, as well as the calculation and use of shared cost allocators.

*Ring-fencing compliance report*

Ausgrid reports compliance with the cost allocation and attribution requirements (section 3.2.2 of the Ring-fencing Guideline) as a part of the Ring-fencing Guideline annual compliance report. The annual compliance report also covers Ausgrid's compliance with the requirements under the AER's legal and functional separation guideline. The Ring-fencing Guideline annual compliance report is provided to the AER and accompanied by an assessment of compliance by a suitably qualified independent authority in accordance with section 6.2.1(c) of the Ring-fencing Guideline requirements.

*Other reviews*

Other reviews completed by Finance staff include:

- Reviewing the coding of costs and costing entries to determine if costs are captured on the appropriate Cost Objects;
- Preparation of annual business plan, budget and quarterly forecasts on a full cost allocation basis in accordance with the CAM; and
- Monthly preparation and review of financial results against budget and forecast on a full cost allocation basis for SCS, ACS, EII activities and unregulated businesses.



## 5 Accountabilities and declarations

### 5.1 Accountabilities and Responsibilities

Ausgrid considers that the CAM complies with the requirements of the NER and the CAG and all regulatory financial information and reporting is prepared in a manner that is consistent with it. Ausgrid is committed to implementing this CAM in full following approval from the AER.

Overall responsibility for the governance and implementation of the CAM is with the Chief Financial Officer (**CFO**) of Ausgrid.

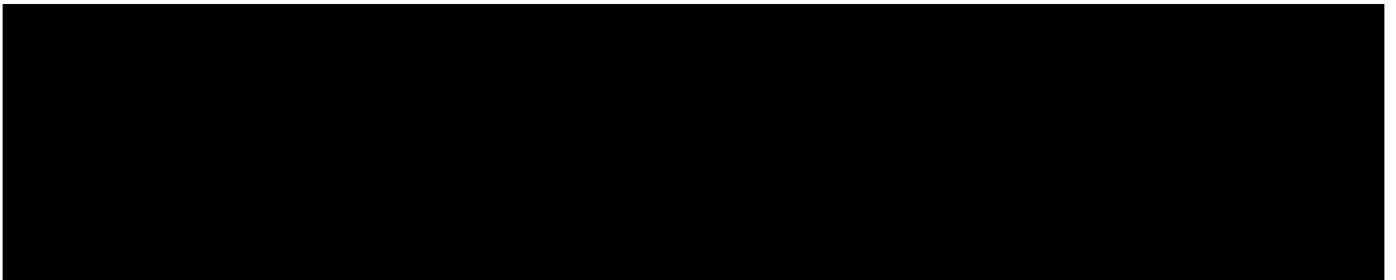
The Head of Commercial Finance and Control is responsible for ensuring the CAM is updated, maintained and applied, including the internal monitoring and reporting of its application. The Head of Commercial Finance and Control is responsible for the preparation of the financial elements of annual RINs, together with periodic internal and external financial reporting. The Head of Commercial Finance and Control works in close collaboration with other groups within Ausgrid to communicate the requirements of the CAM and monitor Ausgrid's compliance with the CAM.

## 5.2 Director's statement

In accordance with section 3.1(1)(j) of the CAG-EII, we:

- state that, in our opinion, the information contained in this cost allocation methodology is accurate; and
- confirm Ausgrid's intention to comply with the cost allocation methodology as approved by the AER.

Signed in accordance with a resolution of the Board:









## Appendix 1: Organisational structure

Ausgrid delivers its regulated business activities through seven business groups, overseen by the CEO. The organisational structure is illustrated in **Figure 6** below. Like any business, Ausgrid's organisational structure is subject to change. Unless the change in structure impacts the way costs are allocated as outlined in this CAM, organisational structure changes will not trigger an update to the CAM or AER approval.

The key responsibilities of each area of the business are as follows:



### Business Groups

- **Customer, Assets & Digital** – responsible for services provided to customers, support delivery of capex and maintenance programs through co-ordination, engineering, design and performance management, support evolution of IT and OT in delivering customer and business needs.
- **Market Development & Strategy** – Set and co-ordinate strategic priorities, stakeholder engagement, brand and marketing, policy and regulation, external affairs and distributed services operator (DSO) capability.
- **Transmission Development & Growth** – The Transmission Development & Growth group develops Renewable Energy Zones, transmission capability and renewable connections to the grid.
- **Safety, Delivery and Operations** – responsible for the delivery of Ausgrid's network capital and maintenance programs, including vegetation management, day-to-day operational responsibility for managing the network, and managing safety services function including workers compensation, work health and safety and injury management. Operations group also includes Ausgrid's control room.
- **Finance and Business Services** – responsible for Ausgrid's financial, tax, reporting, treasury operations, fleet and procurement.

- **People & Culture** – responsible for managing the human resources and employee relations function, including industrial relations and organisational capability.
- **Legal, Governance & Property** – responsible for supporting the operation of the board and corporate governance, risk and compliance. The Legal, Risk & Compliance group also includes Ausgrid’s in-house legal services and internal audit functions and also manages Ausgrid’s non-network property portfolio.
- **Distributed Services & PLUS ES** – smart meters, community batteries and electric vehicle charging infrastructure.

## Appendix 2: Compliance with Rules

Table 2: Compliance with the National Electricity Rules

| NER Section   | Requirement   | Relevant section of CAM |
|---------------|---|-------------------------|
| 6.15.2(1)     | The detailed principles and policies used by a Distribution Network Service Provider to allocate costs between different categories of distribution services must be described in sufficient detail to enable the AER to replicate reported outcomes through the application of those principles and policies.  | 3                       |
| 6.15.2(2)     | The allocation of costs must be determined according to the substance of a transaction or event rather than its legal form.   | 3.1                     |
| 6.15.2(3)(i)  | Only the following costs may be allocated to a particular category of distribution services:<br><br>(i) costs which are directly attributable to the provision of those services  | 3.2                     |
| 6.15.2(3)(ii) | Only the following costs may be allocated to a particular category of distribution services:<br><br>(ii) costs which are not directly attributable to the provision of those services but which are incurred in providing those services, in which case such costs must be allocated to the provision of those services using an appropriate allocator which should:<br><br>A. except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and<br><br>B. to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well accepted cost allocation method. | 3.2                     |
| 6.15.2(4)     | Any cost allocation method which is used, the reasons for using that method and the numeric quantity (if any) of the chosen allocator must be clearly described.  | 3.3, 3.4, 3.5           |
| 6.15.2(5)     | The same cost must not be allocated more than once  | 3.1                     |
| 6.15.2(6)     | The principles, policies and approach used to allocate costs must be consistent with the Distribution Ring-fencing Guidelines.  | 3.1                     |
| 6.15.2(7)     | Costs which have been allocated to a particular service cannot be reallocated to another service during the course of a regulatory control period.  | 3.1                     |
| 6.15.4(a)     | Each Distribution Network Service Provider must submit to the AER for its approval a document setting out its proposed Cost Allocation Method:<br><br>(1) within 12 months after the commencement of the Rules; or<br><br>(2) in the case of an entity that becomes a Distribution Network Service Provider more than 6 months after the commencement of the Rules, within 6 months of being required to do so by the AER   | 1.2                     |
| 6.15.4(b)     | The Cost Allocation Method proposed by a Distribution Network Service Provider must give effect to and be consistent with the Cost Allocation Guidelines.   | 1.2                     |
| 6.15.4(h)     | A Distribution Network Service Provider must maintain a current copy of its Cost Allocation Method on its website.  | 1.2                     |

Table 3: Compliance with the AER Cost Allocation Guidelines (National Electricity Rules)

| CAG Section | Requirement   | Relevant section of CAM |
|-------------|---|-------------------------|
| 1.5         | Each DNSP must develop a proposed Cost Allocation Method for submission to the AER in accordance with the requirements of these Guidelines. A DNSP's Cost Allocation Method must give effect to and be consistent with these Guidelines.  | 1.2                     |
| 2.2.1(a)    | A DNSP's detailed principles and policies for attributing costs directly to, or allocating costs between categories of distribution services must be sufficiently detailed to enable:<br><br>(1) The AER to replicate the reported outcomes through the application of those principles and policies; and<br><br>(2) The DNSP to demonstrate that it is meeting the requirements of these Guidelines. | 3                       |
| 2.2.1(b)    | For the avoidance of doubt, section 2.2.1(a) means that a DNSP must include information on the following matters only to the extent necessary to enable the AER to replicate its reported outcomes.   | 3                       |
| 2.2.2(a)    | A DNSP shall attribute costs directly to, or allocate costs between categories of distribution services based on the substance of the underlying transaction or event.  | 3.3                     |
| 2.2.2(b)    | Where the substance and legal form differ, the substance rather than the legal form of a transaction or event shall be used as the basis of cost attribution or allocation.   | 3.4                     |
| 2.2.2(c)    | In determining the substance of a transaction or event, all of its aspects and implications shall be considered, including the expectations of and motivations for, the transaction or event.   | 3                       |
| 2.2.2(d)    | For the purposes of determining the substance of a transaction or event, a group or series of transactions or events that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate.   | 3                       |
| 2.2.3(a)    | In accordance with the requirements of NER clause 6.15.2(3)(i), only costs that are directly attributable to the provision of a particular category of distribution services may be directly attributed to that category of services.   | 3.3                     |
| 2.2.3(b)    | A cost may be directly attributable to a DNSP but not directly attributable to a particular category of distribution services provided by the DNSP. In this circumstance, the allocation of costs between categories of distribution services may only be made in accordance with clause 2.2.4 of these Guidelines.   | 3.4                     |
| 2.2.4(a)    | In accordance with the requirements of NER clause 6.15.2(3)(ii), shared costs incurred in providing several categories of distribution services must be allocated between those categories using an appropriate causal allocator, except to the extent that:<br><br>(1) The shared costs are immaterial; or<br><br>(2) A causal relationship cannot be established without undue cost and effort.     | 3.4                     |
| 2.2.4(b)    | For the avoidance of doubt, a DNSP must allocate its shared costs:<br><br>(1) Between the categories of distribution services that it provides; and<br><br>(2) Within the different types of negotiated distribution services that it provides for the purposes of determining its prices for these services in accordance with clause 6.7.1(1).  | 3.4                     |
| 2.2.4(c)    | If a shared cost is immaterial or a causal relationship cannot be established without undue cost and effort, then the DNSP may allocate the shared cost to  | 3.2, 3.3, 3.4           |

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| CAG Section | Requirement   | Relevant section of CAM |
|-------------|---|-------------------------|
|             | a particular category of distribution services using a non-causal allocator provided that:<br><br>(1) The non-causal allocator accords with an AER approved Cost Allocation Method;<br><br>(2) The non-causal basis of allocation is approved in writing by the AER; and<br><br>(3) The DNSP provides a supporting work paper to the AER documenting for each such shared cost:   |                         |
| 2.2.4(d)    | The bases of non-causal allocation will be subject to review by the AER. The AER expects only to accept a non-causal basis of allocation if the DNSP can demonstrate that there is likely to be a strong positive correlation between the non-causal basis of allocation and the actual cause of the resource or service consumption or utilisation that those shared costs represent.  | 3.2, 3.3, 3.4           |
| 2.2.4(e)    | A DNSP is not permitted to allocate shared costs using an avoided cost approach without prior approval by the AER.  | 3.4                     |
| 2.2.5(a)    | A DNSP must not allocate the same cost more than once.  | 3.1                     |
| 2.2.5(b)    | For the avoidance of doubt, clause 2.2.5(a) means that:<br><br>(1) The same cost may not be treated as both a direct cost and a shared cost;<br><br>(2) A direct cost may only be attributed once to a single category of distribution services;<br><br>(3) A shared cost may only be allocated once between categories of distribution services; and<br><br>(4) A DNSP may only recover the same cost once through the charges that it levies for its distribution services. | 3                       |
| 2.2.6       | The detailed principles, policies and approach that a DNSP uses to attribute costs directly to, or to allocate costs between, categories of distribution services must be consistent with clause 6.17 of the NER.   | 1.2                     |
| 2.2.7       | Costs that have been attributed or allocated to distribution services must not be reattributed or reallocated to another service during the course of a regulatory control period.  | 3.1                     |
| 3.2(a)(1)   | A version history and date of issue for the document.   | Inside cover            |
| 3.2(a)(2)   | A statement of the nature, scope and purpose of the document and the way in which it is to be used by the DNSP.   | 1.2                     |
| 3.2(a)(3)   | Details of the accountabilities within the DNSP for the document in order to set out clearly:<br><br>A. the DNSP's commitment to implementing the Cost Allocation Method; and<br><br>B. responsibilities within the DNSP for updating, maintaining and applying the Cost Allocation Method and for internally monitoring and reporting on its application.  | 5.1                     |
| 3.2(a)(4)   | A description of the DNSP's corporate and operational structure in order to enable the AER to understand how the DNSP is organised to provide its distribution services.  | 1.1                     |
| 3.2(a)(5)   | A specification of the categories of distribution services that the DNSP provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided.  | 2                       |
| 3.2(a)(6)   | The DNSP's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of these Guidelines. For the  | 3                       |

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| <b>CAG Section</b> | <b>Requirement</b>  | <b>Relevant section of CAM</b> |
|--------------------|---|--------------------------------|
|                    | avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.  |                                |
| 3.2(a)(7)          | <p>A description of how the DNSP will maintain records of the attribution or allocation of costs to, or between, categories of distribution services in order to enable any such attribution or allocation to be:</p> <p>A. demonstrated to the AER, in accordance with clause 5.2 of these Guidelines; and</p> <p>B. audited or otherwise verified by a third party, including the AER, as required.</p> | 4.1                            |
| 3.2(a)(8)          | A description of how the DNSP will monitor its compliance with the Cost Allocation Method and these Guidelines.   | 4.2                            |
| 3.2(a)(9)          | Details of the proposed date on which the Cost Allocation Method will commence, having regard to clause 4.1(d) of these Guidelines.   | 1.3                            |
| 5.4                | In accordance with the requirement of clause 6.15.4(h), a DNSP must maintain a current copy of its approved Cost Allocation Method on its website.  | 1.2                            |



## Appendix 3: Compliance with EII Chapter 6A

Table 4: Compliance with the EII Chapter 6A

| NER Section    | Requirement   | Relevant section of CAM |
|----------------|---|-------------------------|
| 6A.19.2(1)     | The detailed principles and policies used by a Network Operator to allocate costs between different categories of regulated network services must be described in sufficient detail to enable the AER to replicate reported outcomes through the application of those principles and policies.  | 3                       |
| 6A.19.2(2)     | The allocation of costs must be determined according to the substance of a transaction or event rather than its legal form.   | 3.1                     |
| 6A.19.2(3)(i)  | Only the following costs may be allocated to a particular category of regulated network services:<br><br>(iii) costs which are directly attributable to the provision of those regulated network services   | 3.2                     |
| 6A.19.2(3)(ii) | Only the following costs may be allocated to a particular category of regulated network services:<br><br>(iv) costs which are not directly attributable to the provision of those regulated network services but which are incurred in providing those regulated activities, in which case such costs must be allocated to the provision of those regulated network services using an appropriate allocator which should:<br><br>A. except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and<br><br>B. to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well accepted Cost Allocation Methodology. | 3.2                     |
| 6A.19.2(4)     | Any Cost Allocation Methodology which is used, the reasons for using that methodology and the numeric quantity (if any) of the chosen allocator must be clearly described.  | 3.3, 3.4, 3.5           |
| 6A.19.2(5)     | The same cost must not be allocated more than once  | 3.1                     |
| 6A.19.2(6)     | The principles, policies and approach used to allocate costs must be consistent with the AER's guideline made pursuant to section 42 of the EII Regulation.   | 3.1                     |
| 6A.19.4(a)     | Each Network Operator must submit to the AER for its approval a document setting out its proposed Cost Allocation Methodology: ...<br><br>(3) prepared in accordance with the requirements set out in clause 6A.19.4 within 60 business days before the Network Operator's revenue proposal is due to the AER.  | 1.2                     |
| 6A.19.4(b)     | The Cost Allocation Methodology proposed by a Network Operator must give effect to and be consistent with the EII Cost Allocation Guideline.  | 1.2                     |
| 6A.19.4(h)     | A Network Operator must maintain a current copy of its Cost Allocation Methodology on its website.  | 1.2                     |

Table 5: Compliance with the AER CAG-EII

| <b>CAG-EII Section</b> | <b>Requirement</b>  | <b>Relevant section of CAM</b> |
|------------------------|---|--------------------------------|
| 2.1                    | A Network Operator's proposed Cost Allocation Methodology must give effect to and be consistent with this guideline.  | 1.2                            |
| 2.1.1(1)               | <p>A Network Operator's detailed principles and policies for attributing costs directly to, or allocating costs between or within:</p> <ul style="list-style-type: none"> <li>a) each EII regulated activity,</li> <li>b) Other regulated activities or services, and</li> <li>c) Other activities or services</li> </ul> <p>must be sufficiently detailed to enable us to replicate the reported outcomes through the application of those principles and policies.</p>  | 3                              |
| 2.1.1(2)(a)            | <p>To enable us to replicate the Network Operator's reported outcomes, a Network Operator must include information on the following matters:</p> <ul style="list-style-type: none"> <li>a) For directly attributable costs: <ul style="list-style-type: none"> <li>i) the nature of each cost item,</li> <li>ii) the activity or service type between or within which the cost item is to be directly attributed,</li> <li>iii) the characteristics of the cost item that associate it uniquely with or within each activity or service type to make it a directly attributable cost, and</li> <li>iv) how and where records will be maintained to enable the basis of attribution to be audited or otherwise verified by a third party, including us.</li> </ul> </li> </ul>   | 3                              |
| 2.1.1(2)(b)            | <p>To enable us to replicate the Network Operator's reported outcomes, a Network Operator must include information on the following matters:</p> <ul style="list-style-type: none"> <li>b) For shared costs: <ul style="list-style-type: none"> <li>i) the nature of each cost item,</li> <li>ii) the activity or service type between or within which each cost item is to be allocated,</li> <li>iii) the nature of the allocator, or allocators, to be used for allocating each cost item,</li> <li>iv) the reasons for selecting the allocator, or allocators, for each cost item and an explanation of why it is the most appropriate available allocator, or set of allocators, for the cost item,</li> <li>v) whether the numeric quantity or percentage of the allocator, or allocators, to be applied for each cost item will: <ul style="list-style-type: none"> <li>A. remain unchanged over the regulatory control period, or</li> <li>B. change from time to time throughout the regulatory control period.</li> </ul> </li> <li>vi) If clause 2.1.1.2(b)(v)(A) applies: <ul style="list-style-type: none"> <li>A. details of numeric quantity or percentage of the allocator, or allocators, and</li> <li>B. an explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage have been sourced</li> </ul> </li> <li>vii) If clause 2.1.1.2(b)(v)(B) applies, an explanation of how the Network Operator intends to calculate the numeric quantity or percentage</li> </ul> </li> </ul> | 3                              |

| CAG-EII Section | Requirement   | Relevant section of CAM |
|-----------------|---|-------------------------|
|                 | <p>throughout the regulatory control period, including where the data for determining the changing numeric quantities or percentages are to be sourced, and</p> <p>viii) how and where records will be maintained to enable the allocation to be audited or otherwise verified by a third party, including by us.</p>   |                         |
| 2.1.2(1)        | A Network Operator shall attribute costs directly to, or allocate costs between or within, activity or service types based on the substance of the underlying transaction or event.   | 3.3                     |
| 2.1.2(2)        | Where the substance and legal form differ, the substance rather than the legal form of a transaction or event shall be used as the basis of cost attribution or allocation.   | 3.4                     |
| 2.1.2(3)        | In determining the substance of a transaction or event, all of its aspects and implications shall be considered, including the expectations of, and motivations for, the transaction or event.  | 3                       |
| 2.1.2(4)        | For the purposes of determining the substance of a transaction or event, a group or series of transactions or events that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate.   | 3                       |
| 2.1.3(1)        | Only costs that are directly attributable to or within the provision of a particular activity or service type may be directly attributed to that activity or service type.  | 3.3                     |
| 2.1.3(2)        | A cost may be directly attributable to a Network Operator but not directly attributable to a particular activity or service type provided by the Network Operator. In this circumstance, the allocation of costs between or within activities or service types may only be made in accordance with clause 2.1.4.  | 3.4                     |
| 2.1.4(1)        | <p>Shared costs incurred in providing several activities or services must be allocated between or within those categories using an appropriate causal allocator, except to the extent that:</p> <p>a) the shared costs are immaterial; or</p> <p>b) a causal relationship cannot be established without undue cost and effort.</p>  | 3.4                     |
| 2.1.4(2)        | <p>For the avoidance of doubt, a Network Operator must allocate its shared costs:</p> <p>a) between or within the different EII regulated activities it delivers,</p> <p>b) between or within different types of Other regulated activities or services that it provides under the NER, and</p> <p>c) between or within different types of Other activities or services it provides.</p>  | 3.4                     |
| 2.1.4(3)        | <p>If a shared cost is immaterial or a causal relationship cannot be established without undue cost and effort, then the Network Operator may allocate the shared cost to, or within, the activity or service type using a non-causal allocator provided that:</p> <p>a) the non-causal allocator accords with an AER approved cost allocation methodology,</p> <p>b) the aggregate of all shared costs subject to non-causal bases of allocation is not material,</p> <p>c) the non-causal basis of allocation is approved in writing by us, and</p> <p>d) the Network Operator provides a supporting work paper to us documenting for each such shared cost:</p> <p>A. the basis of allocation,</p> | 3.2, 3.3, 3.4           |

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| <b>CAG-EII<br/>Section</b> | <b>Requirement</b>  | <b>Relevant<br/>section of<br/>CAM</b> |
|----------------------------|---|--|
|                            | <p>B. the reason chosen for that basis,</p> <p>C. a demonstration that the shared cost is immaterial or an explanation of why a non-causal relationship could be established, and</p> <p>D. a numeric quantity or percentage of the non-causal allocator applied to each activity or service type and in total.</p>   |  |
| 2.1.4(4)                   | The bases of non-causal allocation will be subject to review by us. We expect only to accept a non-causal basis of allocation if the Network Operator can demonstrate that there is likely to be a strong positive correlation between the non-causal basis of allocation and the actual cause of the resource or service consumption or utilisation that those shared costs represent.   | 3.2, 3.3, 3.4                          |
| 2.1.4(5)                   | A Network Operator is not permitted to allocate shared costs using an avoided cost approach unless approved by us.  | 3.4                                    |
| 2.1.5(1)                   | A Network Operator must not allocate the same cost more than once.  | 3.1                                    |
| 2.1.5(2)                   | <p>For the avoidance of doubt, clause 2.1.5(1) means that:</p> <p>a) the same cost may not be treated as both a direct cost and a shared cost,</p> <p>b) a direct cost may only be attributed once to a single EII regulated activity, Other regulated activity or service, or Other activity or service,</p> <p>c) a shared cost may only be allocated once to a single EII regulated activity, Other regulated activity or service, or Other activity or service, and</p> <p>d) a Network Operator may only recover the same cost once through the charges that it levies for its regulated and unregulated activities or services.</p> | 3                                      |
| 2.1.6                      | The detailed principles, policies, and approach that a Network Operator uses to attribute costs directly to, or to allocate costs between or within, activity or service types must be consistent with our EII legal and functional separation guideline.   | 1.2                                    |
| 3.1(1)(a)                  | A version history and date of issue for the document.   | Inside cover                           |
| 3.1(1)(b)                  | A statement of the nature, scope and purpose of the document and the way in which it is to be used by the Network Operator.   | 1.2                                    |
| 3.1(1)(c)                  | <p>Details of the accountabilities within the Network Operator for the document in order to set out clearly:</p> <p>i) the Network Operator's commitment to implementing the cost allocation methodology; and</p> <p>ii) responsibilities within the Network Operator for updating, maintaining, and applying the cost allocation methodology and for internally monitoring and reporting on its application.</p>   | 5                                      |
| 3.1(1)(d)                  | A description of the Network Operator's corporate and operational structure to enable the AER to understand how the Network Operator is organised to provide the different types of activities and services it delivers.  | 1.1                                    |
| 3.1(1)(e)                  | A specification of the EII regulated activities, Other regulated activities or services, and Other activities or services that the Network Operator provides to which costs are to be attributed or allocated, and the types of persons to whom those services are provided   | 2                                      |
| 3.1(1)(f)                  | the Network Operator's detailed principles and policies to be used for attributing costs directly to, or allocating costs between or within EII regulated activities, Other regulated activities or services, and Other activities or services that meet the requirements of clause 2.1 of this guideline. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.   | 3                                      |

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| <b>CAG-EII<br/>Section</b> | <b>Requirement</b>   | <b>Relevant<br/>section of<br/>CAM</b> |
|----------------------------|--|--|
| 3.1(1)(g)                  | A description of how the Network Operator will maintain records of the attribution or allocation of costs between or within EII regulated activities, Other regulated activities or services, and Other activities or services to enable any such attribution or allocation to be:<br><br>i) demonstrated to us, in accordance with clause 5.2 of this guideline and<br>ii) audited or otherwise verified by a third party, including us, as required. | 4.1                                    |
| 3.1(1)(h)                  | A description of how the Network Operator will monitor its compliance with the cost allocation methodology and this guideline.   | 4.2                                    |
| 3.1(1)(i)                  | Details of the proposed date on which the cost allocation methodology will commence, having regard to clause 4.1(5) of this guideline.   | 1.3                                    |
| 3.1(1)(j)                  | A statement signed and dated by not less than two directors of a Network Operator, which states whether in the directors' opinion, the information contained in the cost allocation methodology is accurate and which confirms the Network Operator's intention to comply with the cost allocation methodology as approved by us.  | 5.2                                    |
| 3.2(2)                     | The Network Operator must provide, in its cost allocation methodology, a statement confirming that any marginal increases in direct costs as a result of including EII regulated activities, will match the marginal increases in shared costs.  | 5.3                                    |
| 5.3                        | A Network Operator must maintain a current copy of its approved cost allocation methodology on its website.  | 1.2                                    |



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## Contact us

Enquiries concerning Ausgrid's Cost Allocation Methodology should be addressed to:  
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