

RIN Attachment 13: Cost allocation method application

Access Arrangement Information

ACT and Queanbeyan-Palerang gas network 2026–31

Submission to the Australian Energy Regulator

Evoenergy Electricity distribution network

Documentation of cost allocation methodology

July 2018

Document management

Date	Version	Description
1	1 February 2008	N/A. First version approved by AER March 2008.
2	20 December 2012	Second version amended to reflect AER's CAM Guidelines. Approved by the AER in June 2013.
3	15 June 2018	Update to second version to reflect obligations in Ring-Fencing Guideline including brand and organisational changes.
4	31 July 2018	Incorporate further changes required by the AER.

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1. Introduction

1.1 Background

In December 2012, ActewAGL Distribution submitted to the Australian Energy Regulator (AER) a document containing an amended cost allocation method (CAM) for the regulatory control period 2014-19. The AER approved ActewAGL Distribution's amended CAM in June 2013¹, in accordance with the National Electricity Rules (NER).² The 2013 CAM was the first CAM that ActewAGL Distribution prepared in accordance with chapter six of the NER, and replaced ActewAGL Distribution's previous CAM approved by the AER in 2008.

This 2018 CAM document provides minor updates to the 2013 CAM document to address changes in business operations and the regulatory regime for ring-fencing.³ The 2018 CAM document explains how ActewAGL Distribution attributes costs directly to, or allocates costs between different categories of distribution services.

In developing the 2018 CAM document, Evoenergy has not deviated from the allocations that the AER approved in the 2013 CAM.

1.2 Overview of updates

The updates to the CAM document are made to include recent changes to the operations of ActewAGL Distribution and the Electricity Distribution Ring-Fencing Guideline (Ring-Fencing Guideline).⁴ This 2018 CAM document explains how ActewAGL Distribution incorporates these changes in the CAM, including:

- references to the new national Ring-Fencing Guideline;
- a description of changes to the operational structure of ActewAGL Distribution required for compliance with the Ring-Fencing Guideline;
- more information about the allocation of costs; and
- updates to the layout and style of the document.

¹ AER (2013) *Final Decision, ActewAGL Distribution Revised Cost Allocation Method* p.6.

² National Electricity Rules 6.15.4 (c).

³ The making of the Electricity Distribution Ring-fencing Guideline (Ring-fencing Guideline) became a requirement following the Australian Energy Market Commission (AEMC) rule change in 2015 as part of its Power of Choice review. The subsequent amendments to the National Electricity Rules stipulated that the Australian Energy Regulator (AER) must develop the Ring-fencing Guideline. The AER published the new Guideline on 30 November 2016 which was amended on 17 October 2017. The Ring-fencing Guideline replaces the ring-fencing obligations set out in the Ring Fencing Guidelines for Electricity and Gas Network Service Operators in the ACT

⁴ AER (2017) *Ring-fencing Guideline Electricity Distribution*

This update to the CAM document does not impact on its compliance with the Electricity Distribution Network Service Providers (DNSPs) Cost Allocation Guidelines⁵ (CA Guidelines). The updated 2018 CAM document does not alter the method for cost allocation and attribution explained in the 2013 CAM. The AER previously verified that the 2013 CAM is compliant with the CAM requirements of the NER.

1.3 Structure of this document

Clause 3.2(a) of the CA Guidelines specifies the format and content of the CAM document. In summary, Table 1 lists the format and contents that a CAM document must include.

Table 1 Format and contents of a CAM document

Format and content	Reference in 2018 CAM document
Version number	Detailed in the Document Management table on page 2 of this document.
History and date of issue	Detailed in the Document Management table on page 2 of this document.
Nature, scope and purpose	Nature, scope and purpose is described in section 2. Section 5 describes the accountabilities and responsibilities.
Organisational structure	Organisational structure is described in section 3. Section 0 describes the operational structure of ActewAGL Distribution.
Categories of services and customers	Categories of services and customers are described in section 6.
Detailed principles and Policies of the CAM	Section 7 describes the cost allocation principles and policies. Section 8 describes the directly attributable costs. Section 9 describes the shared costs.
Record maintenance	Section 11 describes the audit and records management.
Compliance monitoring	Compliance monitoring is described in section 12.
Commencement date	Commencement date is described in section 13.

⁵ AER (2008) *Electricity Distribution Network Service Providers Cost Allocation Guidelines*

2. Nature, scope and purpose of the document

2.1 Nature of the cost allocation method

ActewAGL Distribution applies the CAM by attributing costs to projects for the applicable product or service and the allocation of shared costs between service categories to achieve accurate accounting practices consistent with Australian accounting standards.

The AER's CA Guidelines set out arrangements for DNSPs to manage the attribution of direct costs and the allocation of shared costs between categories of distribution services. The NER requires that the cost allocation method proposed by ActewAGL Distribution must give effect to and be consistent with the AER's CA Guidelines.⁶

ActewAGL Distribution provides the 2018 CAM document to comply with all of the requirements set out in the AER's CA Guidelines and the Ring-Fencing Guideline that relate to the CAM. Table 12 in Appendix 1 details how this document complies with the form and content requirements of the CA Guidelines.

As required by the AER's CA Guidelines, ActewAGL Distribution's CAM has been prepared in accordance with the Cost Allocation Principles contained in the NER.

Table 13 in Appendix 1 details how this 2018 CAM document complies with the CAM principles. The cost allocation principles applied by ActewAGL Distribution are as follows:

1. The principles and policies used by ActewAGL Distribution to allocate costs between categories of distribution services are contained in this document;
2. The allocation of costs has been determined according to the substance of a transaction or event rather than its legal form;
3. Costs attributed to a particular category of distribution services or allocated between service categories are either:
 - a. costs which are directly attributable to the provision of those services; or
 - b. costs not directly attributable that are allocated using an appropriate allocator.
4. The reasons for using the method of the chosen allocator are clearly described in this document;
5. The same costs are not allocated more than once;

⁶ AER (2008) *Electricity Distribution Network Service Providers Cost Allocation Guidelines* Chapter 2, section 2.2 p7

6. The principles, policies and approach used to allocate costs are consistent with the Ring-Fencing Guideline; and
7. Costs which 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.

2.2 Scope of the cost allocation method

In accordance with clause 5.1(b) of the AER's CA Guidelines, the CAM described in this document will be applied by ActewAGL Distribution in preparing:

- forecast operating expenditure to be submitted to the AER in accordance with clause 6.5.6 of the NER;
- forecast capital expenditure to be submitted to the AER in accordance with clause 6.5.7 of the NER;
- prices for a negotiated distribution service determined in accordance with clause 6.7.1 of the NER;
- annual statements and other responses to AER ad hoc requests to be submitted to the AER in accordance with a future regulatory information instrument; and
- actual or estimated capital expenditure for the purposes of increasing the value of its regulatory asset base under NER schedule 6.2.1(f).

ActewAGL Distribution will also use the 2018 CAM document in the preparation of training and guidance for ActewAGL Distribution staff in relation to cost allocation principles, policies and obligations.

In accordance with the cost allocation and attribution obligations detailed in the Ring-fencing Guideline,⁷ the CAM described in this document will be applied by ActewAGL Distribution to comply with the following obligations:

- allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services;
- only allocate and attribute costs to distribution services in accordance with clause 3.2.2(a) of the Ring-fencing Guideline, and must not allocate or attribute other costs to the distribution services it provides; and
- establish, maintain and keep records that demonstrate how the distribution network service provider meets the two obligations above.

ActewAGL Distribution applies this 2018 CAM document to regulated electricity distribution services as detailed in the AER's table of service classifications in its final decisions for the determination of ACT distribution services.

⁷ AER (2017) *Ring-fencing Guideline Electricity Distribution* Clause 3.2.2 (a), (b) and (c)

In addition to regulated electricity distribution services, ActewAGL Distribution provides unclassified distribution services as detailed in section 6.

Ring-fencing arrangements are in place to separate the activities of the regulated entity from other activities, except to the extent that AER approved waivers apply.

ActewAGL Distribution maintains separate accounting company structures for each of these service groups.

2.3 Purpose

ActewAGL Distribution has developed this CAM document to comply with the requirements set out in the AER's CA Guidelines and the Ring-Fencing Guideline that relate to the CAM.

Table 12 in Appendix 1 details how this document complies with the CA Guidelines.

Table 13 in Appendix 1 details how this document complies with the NER cost allocation principles and policies.

Table 14 in Appendix 1 details how this document complies with the CAM related obligations in the Ring-Fencing Guideline. The ring-fencing obligations that relate to the CAM are legal separation, obligations to establish and maintain accounts, and functional separation.

- **Legal Separation:** The Ring-fencing Guideline requires that a DNSP may provide distribution services and transmission services, but must not provide other services.⁸
- **Establish and maintain accounts:** the accounting separation obligations require a DNSP to:
 - have appropriate internal accounting procedures to ensure it can demonstrate transactions between the DNSP and affiliated entities;
 - allocate and attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and the approved CAM as if they applied to costs allocated between distribution services and non-distribution services; and
 - not allocate other costs to distribution services and to keep records that demonstrate how these obligations are met.⁹
- **Functional separation:** The functional separation obligations that are relevant to this 2018 CAM document are the obligations relating to offices, staff, and branding.
 - The Ring-fencing Guideline requires the delivery of direct control services to be separated from the delivery of contestable electricity services.¹⁰ A key purpose of

⁸ AER (2017) *Ring-fencing Guideline Electricity Distribution* clause 3.1

⁹ AER (2017) *Ring-fencing Guideline Electricity Distribution*, clause 3.2

¹⁰ AER (2017) *Ring-fencing Guideline Electricity Distribution*, clause 4.2

these obligations is to prevent a DNSP conferring a competitive advantage on its related electricity service providers that provide contestable electricity services.¹¹

¹¹ AER (2017) *Electricity Distribution Ring-fencing Guideline* as amended, clause 1.1.1, p. 6

3. Corporate Structure

3.1 Ownership structure

ActewAGL comprises two partnerships – the ActewAGL Distribution partnership and the ActewAGL Retail partnership. The ActewAGL Distribution partnership owns and operates the ACT electricity network and owns the gas networks in the ACT, Queanbeyan and Palerang shires, and Nowra. ActewAGL Retail sells electricity and natural gas, along with managing customer service and marketing functions in a competitive market.

The ActewAGL Distribution partnership is owned equally by Icon Water Ltd and Jemena Ltd via subsidiary companies. The ActewAGL Retail partnership is owned equally by Icon Water Limited and AG Energy Ltd via subsidiary companies. This ownership structure is shown in Figure 1 below.

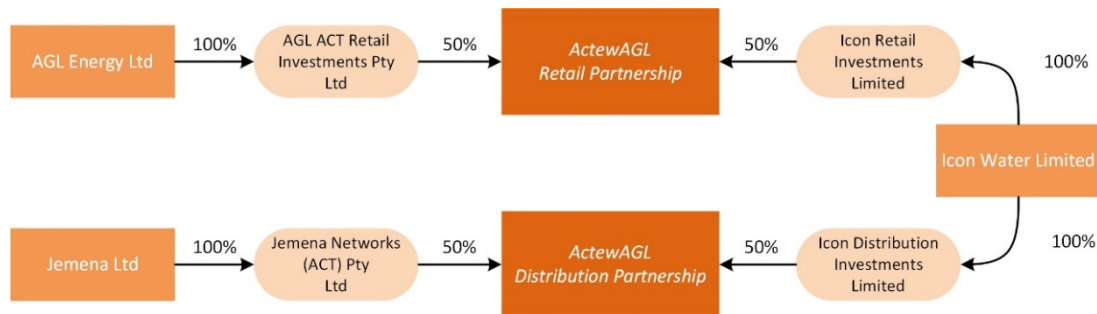


Figure 1 ActewAGL legal and ownership structure

Icon Water Limited purchases corporate services necessary for the functioning of a utility from ActewAGL Distribution. The cost of services under this arrangement is subject to the oversight of the Independent Competition and Regulatory Commission (ICRC), the ACT competition regulator, as part of ICRC's regulation of water and sewerage services provided by Icon Water in the ACT.

ActewAGL Retail purchases corporate services from ActewAGL Distribution. ActewAGL Distribution allocates the costs of supplying these corporate services to ActewAGL Retail.

3.2 ActewAGL Board

The ActewAGL Distribution and ActewAGL Retail partnerships are governed by a single Partnerships Board comprising six members, of which three members are appointed by Icon Water and three are appointed jointly by AGL and Jemena.

The board monitors business performance through progress reports on key projects and divisional progress against budgets and activity plans. It also sets performance targets and makes decisions related to business strategy. For business cases with a large capital value, the board approves expenditure and is responsible for the release of funds.

3.3 Compliance with legal separation

The obligation in the Ring-fencing Guideline for legal separation provides for DNSPs to supply distribution and transmission services but not other services.

This obligation, without a waiver, would mean that a DNSP could not provide gas services. However, the AER has granted a waiver of ActewAGL Distribution's obligation to comply with clause 3.1(b) of the Guideline from 18 December 2017 until 30 June 2024 to allow ActewAGL Distribution to continue to own and operate its:

- natural gas distribution pipelines located in the ACT and the Queanbeyan-Palerang council area east of Canberra (ACT Gas Network); and
- natural gas distribution pipelines located in the Nowra network in the Shoalhaven local government area on the NSW south coast (Nowra Gas Network).

The AER also granted a waiver of ActewAGL Distribution's obligation to comply with clause 3.1(b) of the Guideline from 18 December 2017 until 31 December 2019 to allow ActewAGL Distribution to continue to own and operate its compressed natural gas refuelling facility in the Canberra suburb of Fyshwick (CNG Refuelling Facility).¹²

These AER waivers are granted on the condition that ActewAGL Distribution updates its CAM documentation to:

- reflect the requirements of the Ring-fencing Guideline; and
- explicitly account for the ACT gas network, the Nowra gas network, and the CNG Refuelling Facility, and any changes to ActewAGL Distribution's organisational structure arising from the creation of separate legal entities.

ActewAGL Distribution's compliance with the first waiver condition to address the requirements of the Ring-fencing Guideline in relation to the CAM is detailed in Appendix 1 Table 14. ActewAGL Distribution addresses the second waiver condition in:

- section 3.2 that confirms the proposed formation of one or more separate entities to provide contestable business services but not direct control services;
- section 3.5 below that explicitly accounts for the gas networks; and
- section 0 that describes the organisational re-structures within ActewAGL Distribution.

3.4 Compliance with separate accounts and cost allocation and attribution for the gas networks business

ActewAGL Distribution maintains accounts for the gas network businesses that are separate to the electricity distribution business.

The treatment of costs incurred in the gas networks and facilities are managed using the CAM approach in the same manner that accounts are kept for electricity distribution services. That is, ActewAGL Distribution uses a method for the attribution of direct costs

¹² This waiver is due to expire on 31 December 2019. Expiration of the waiver will not impact the operation of the CAM as the CNG Refuelling Facility already operates under accounting separation from the electricity network business.

and allocation of shared costs in the gas business accounts consistent with the electricity business.

As described in section 8, direct costs are directly attributed to the gas business accounts and include the following categories (where applicable):

- direct project costs, including the costs of materials, contract services and other expenses that can be directly attributed to particular projects and services;
- payroll and payroll-related costs; and
- leasing costs for motor vehicles, plant and computers.

The operation and maintenance of the ACT Gas Network and Nowra Gas Network are wholly outsourced to Jemena Asset Management Pty Ltd (JAM). JAM subcontracts some of the required field services to its contracting arm, Zinfra.

Maintenance services of the CNG Refuelling facility is provided by Bauer Kompressoren Australia (Bauer). ActewAGL Distribution employs a single individual to manage those contracts but does not otherwise play an active role in operating the gas business assets or providing services using those assets.

Section 9 describes how shared costs are allocated in the gas business accounts.

4. Operational structure

4.1 Overview

ActewAGL Distribution owns and operates the electricity distribution network in the ACT and owns the gas distribution network in the ACT, Queanbeyan and Palerang shires, and Nowra. ActewAGL Distribution's electricity network comprises 2,394km of overhead lines, 2,694km of underground cables and 14 zone substations and it supplies electricity to over 190,000 customers in the ACT.

The organisational structure of ActewAGL Distribution has been changed to functionally separate the regulated electricity distribution network services from contestable business activities in order to comply with the requirements of the Ring-fencing Guideline.

ActewAGL Distribution has achieved the functional separation obligations of the Ring-fencing Guideline by separately locating affected staff from the delivery of contestable (unregulated) electricity services, and implementing the new brand, Evoenergy, for the provision of regulated electricity and gas distribution network services.

4.2 Implementation of functional separation

ActewAGL Distribution has implemented organisational changes to comply with the functional separation obligations. Figure 2 shows a high-level structure of ActewAGL Distribution with reference to the implementation of functional separation between Evoenergy and the Contestable Business Unit. Both Evoenergy and the Contestable Business Unit are businesses within the ActewAGL Distribution partnership.

Figure 2 Functional Separation within ActewAGL Distribution

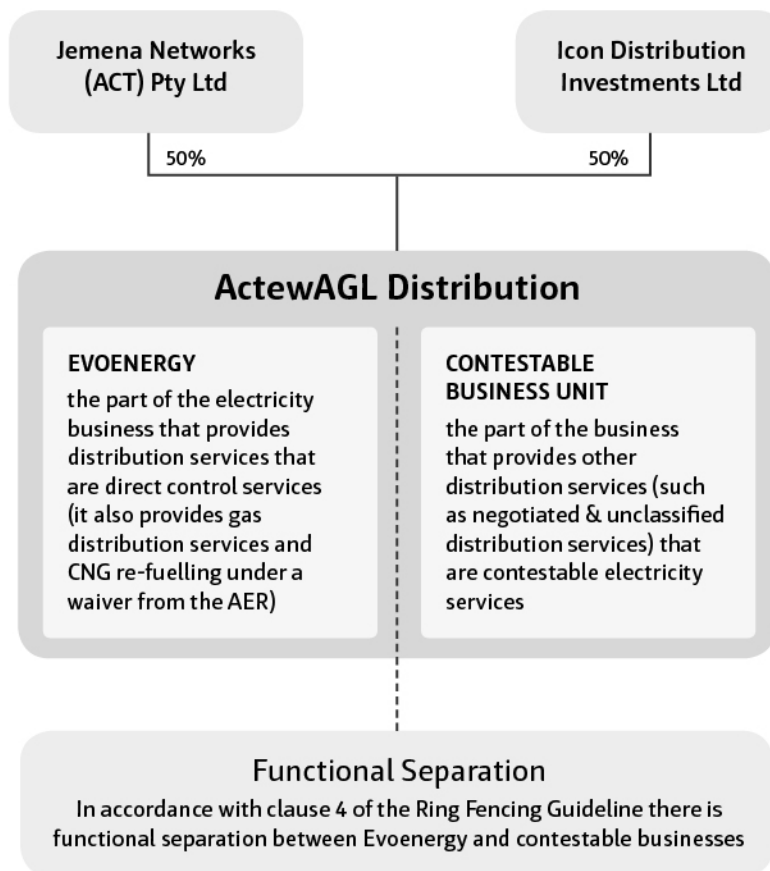


Figure 2 shows that ActewAGL Distribution supplies electricity direct control services and gas distribution services under the Evoenergy brand as shown on the left-hand side of Figure 2 and contestable services from the Contestable Business Unit is depicted on the right-hand side of Figure 2.

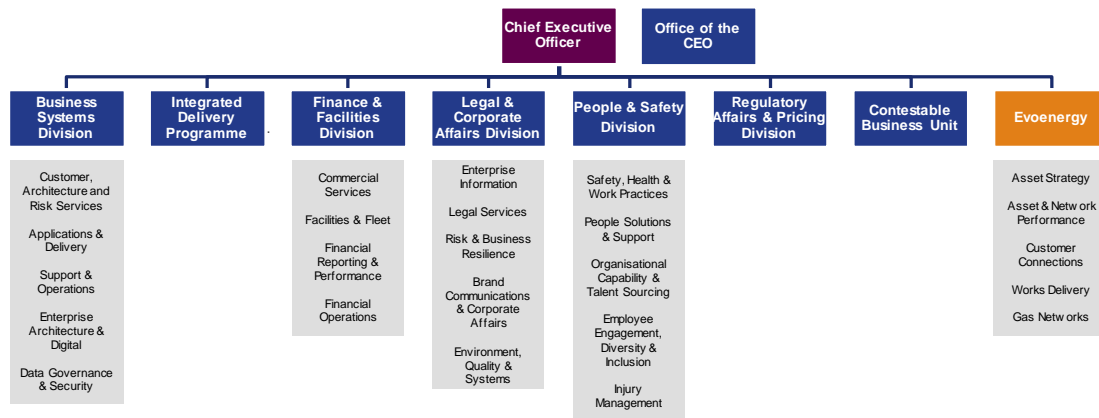
ActewAGL Distribution established the Contestable Business Unit in order to implement the functional separation requirements for separate offices, restrictions on staff sharing and branding in clause 4.2 of the Ring-fencing Guideline. The Contestable Business Unit is located in a separate building to Evoenergy, and has dedicated staff that do not also work for Evoenergy. By establishing the Contestable Business unit in this way, ActewAGL Distribution ensure that as required by the Ring fencing Guideline:

- staff working on delivery of direct control services do not also work on contestable services unless permitted to under the Ring-fencing Guideline;
- staff working on the delivery of direct control services are not located in the same building as staff offices used for contestable services unless permitted to under the Ring-fencing Guideline; and
- direct control services are supplied by a DNSP (under the Evoenergy brand) that does not also deliver contestable electricity services.

4.3 Update to the Organisational Structure

ActewAGL Distribution is structured into eight business divisions, with regulated electricity and gas distribution services delivered from Evoenergy. The Chief Executive Officer oversees and manages across the business divisions with support from an executive management team. Figure 3 shows ActewAGL Distribution's organisational structure.

Figure 3 ActewAGL Distribution Division and Branch Level Structure¹³



The divisions of Business Systems, Integrated Delivery Programme, Finance and Facilities, Legal and Corporate Affairs, People and Safety, and Regulatory Affairs and Pricing comprise the corporate services grouping within ActewAGL Distribution.

The key changes to ActewAGL Distribution's corporate structure at the division level include the establishment of the Integrated Delivery Programme, and the separation of Evoenergy out of the former Energy Networks division. The principal responsibilities of these new business units within ActewAGL Distribution's corporate structure are explained below.

4.3.1 Key responsibilities of the Integrated Delivery Programme Division

The Integrated Delivery Programme (IDP) division oversees the integration of work programs across the business to ensure alignment with corporate objectives. The IDP supports the governance of programs owned by business areas and provides a program management function.

4.3.2 Key responsibilities of Contestable Business Unit

The Contestable Business Unit (CBU) is responsible for managing contestable energy businesses and strategic third party infrastructure projects for ActewAGL Distribution.

¹³ As at June 2018.

4.3.3 Key responsibilities of Evoenergy

Evoenergy has been established to manage the supply of direct control services and gas distribution services, which were previously managed within the Energy Networks Division of ActewAGL Distribution. Table 2 summarises the high-level responsibilities of the branches within Evoenergy.

Table 2 Evoenergy corporate structure

Branch	Principal responsibility
Asset Strategy Branch	Asset ownership responsibilities and development of the program relating to the network augmentation, demand management, and operational technology systems.
Asset and Network Performance Branch	Development of the asset maintenance and replacement program.
Customer Connections Branch	Development of the customer initiated works program, and NEM compliance (Local Network Service Provider, Meter Data Provider, Meter Provider (Type B)).
Works Delivery Branch	All field activities relating to construction, inspection and maintenance.
Gas Networks	Manages the activities of the gas networks to achieve optimum profitability as well as to develop short, medium and long-term strategies and business plans.

5. Accountabilities and responsibilities

5.1 Responsibility for the cost allocation method

The Commercial Services Branch within the Finance and Facilities Division has overall responsibility for updating, maintaining and applying the CAM. Table 3 sets out the accountabilities and responsibilities for updating, maintaining, applying and monitoring the application of the CAM.

Table 3 CAM accountabilities and responsibilities

Role	Accountability and/or responsibility
Chief Executive Officer	<ul style="list-style-type: none"> Accountable for implementing the CAM at the commencement of the next regulatory period
Chief Finance Officer	<ul style="list-style-type: none"> Responsible for implementing the CAM at the commencement of the next regulatory period Responsible and accountable for applying the detailed principles and policies described in this CAM as the basis for attributing costs to, or allocating costs between categories of distribution services provided by ActewAGL Distribution at the commencement of the next regulatory period
Commercial Manager - Networks	<ul style="list-style-type: none"> Implement the CAM and maintain associated costing procedures and guidelines for staff Update and maintain the CAM as required
Regulatory Affairs team	<ul style="list-style-type: none"> Provide advice on design, implementation and ongoing compliance obligations for the CAM Monitor and advise the Regulatory Accounting Team of relevant changes to the NER, Cost Allocation Guidelines or any other regulatory developments that may impact on the CAM
Financial and management accounting teams	<ul style="list-style-type: none"> Day-to-day responsibility for updating, maintaining, applying, internally monitoring and reporting on the application of the CAM
All staff	<ul style="list-style-type: none"> Comply with all relevant costing procedures and guidelines issued by Group Finance to ensure that ActewAGL Distribution complies with the approved CAM

While significant responsibility for the application of the CAM lies with the Regulatory Accounting team, which is located in the Finance and Facilities Division, all ActewAGL Distribution management and staff share responsibility for compliance and for the provision of accurate costing inputs and information (e.g. timesheets) used within the cost allocation process.

ActewAGL Distribution will internally review and monitor application of the CAM for accuracy and completeness and formally monitor and report on the CAM's application through its internal and external audit programs.

6. Categories of distribution services

ActewAGL Distribution manages the supply of regulated gas and electricity distribution services under the brand Evoenergy.

6.1 Evoenergy's electricity distribution services

Evoenergy's electricity distribution services are classified by the AER as standard control, alternative control and negotiated distribution services.¹⁴

- Standard control services involve the provision of common distribution services. These core network services planning, construction, maintenance and operation of the distribution network.
- Alternative control services involve services supplied to a specific customer. These services include Type 5 and 6 meter maintenance, reading and data services (legacy meters), ancillary services related to electricity supply that are typically provided to customers on request.

Evoenergy currently does not provide any services that are classified as negotiated services.

6.2 Customers

Evoenergy serves over 190,000 customers. Customers are primarily commercial, light industrial and residential connections. There are no major industrial customers. In 2016/17, 91 per cent of customers were residential, 9 per cent were low-voltage non-residential customers and the remainder (27 customers) were high-voltage commercial customers. The number of high-voltage commercial customers has remained stable in recent years. These consumer segments are illustrated in Figure 4 below.

¹⁴ Clause 6.2.1 (a) of the NER stipulates: The AER may classify a distribution service to be provided by a Distribution Network Service Provider as:

- (1) a direct control service; or
- (2) a negotiated distribution service.

Note: If the AER decides against classifying a distribution service, the service is, subject to Chapter 5A, not regulated under the Rules.

Figure 4 ActewAGL Distribution customers



6.3 Evoenergy's other services

Evoenergy also supplies the following services:

- *Services from Dual function assets.* These are services delivered using high voltage transmission assets forming part of a distribution network. The AER decides for each regulatory control period whether to price dual function assets according to transmission or distribution pricing rules. As in previous periods, the AER decided to apply transmission pricing rules to Evoenergy's dual function assets for the regulatory control period 2019-24.¹⁵ This decision means that Evoenergy provides transmission standard control services and maintains a transmission regulatory asset base. This decision is consistent with the AER's previous decision in 2012 regarding the treatment of transmission assets for the 2014-19 regulatory period. This 2018 CAM document is applied to transmission services that are classified as dual function assets.
- *Gas distribution services.* These services are provided by Evoenergy in the ACT and surrounding areas, as well as in Nowra in the Shoalhaven region. These services are regulated under the National Gas Act and Rules, which include similar ring-fencing obligations for accounts to be prepared, maintained and kept separate.

¹⁵ AER (July 2017) Framework and Approach ActewAGL Regulatory Control Period Commencing 1 July 2019 p.13

6.4 ActewAGL Distribution's other services

ActewAGL Distribution also supplies:

- *Contestable Services*. Ring-fencing arrangements are in place to legally separate electricity distribution services from non-distribution services and to functionally separate regulated electricity distribution services from contestable electricity distribution services.

7. Cost allocation principles and policies

7.1 Guiding principles

ActewAGL Distribution's cost allocation method and processes have been developed in line with the following guiding principles and policies:

- direct costing/attribution will be used wherever a clear 'line of sight' exists between the cost incurred and the network assets/network service;
- ongoing review will seek to increase the level of direct cost attribution and reduce the level of costs subject to allocation;
- cost allocation methodology and controls will be subject to regular internal and independent review; and
- cost allocation methodology must maintain consistency between reporting periods.

Clause 2.2.3 of the AER's CA Guidelines requires that ActewAGL Distribution only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the services. To the greatest extent possible, ActewAGL Distribution's CAM directly attributes costs to projects and divisions. In performing this attribution, only those costs that are directly attributable to the provision of a distribution service are attributed to that service. For example, material, labour and contractor costs associated with line maintenance and repairs are directly attributed to standard control services because they are used in the provision of distribution services.

ActewAGL Distribution's CAM is consistent with the cost allocation principles set out in Australian Accounting Standard 116: Property, Plant and Equipment. Clause 16 of AASB 116 defines the cost of an item of property, plant and equipment, as comprising, amongst other things, 'any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.'¹⁶ Clause 17 provides examples of directly attributable costs such as employee benefits, site preparation costs, installation and assembly costs, and testing costs. Although this standard covers the treatment of capital (property, plant and equipment) costs, ActewAGL Distribution applies the same cost allocation principles, when directly attributing operating costs.

Clause 2.2.5 of the CA Guidelines requires that ActewAGL Distribution does not allocate the same cost more than once. ActewAGL Distribution's financial systems include a number of controls that ensure costs are not allocated more than once. For example, to ensure duplicate payments do not occur accounts payable systems include an alert, which is raised if an invoice number with the same unique identifier is entered more than once in the invoice field. On a monthly basis, a review is undertaken to ensure that there is no significant over or under allocation of indirect costs to a particular category of distribution service. An annual review of the corporate cost allocation is undertaken to

¹⁶ AASB 116, *Property, Plant and Equipment*, 2010, p.16

ensure that there is no over or under recovery of shared corporate costs by any divisions.

Clause 2.2.7 of the CA Guidelines requires that ActewAGL Distribution does not re-attribute or re-allocate costs to another service during the course of a regulatory control period. ActewAGL Distribution complies with this requirement by adhering to the accounting standards.

7.2 Overview of accounting systems

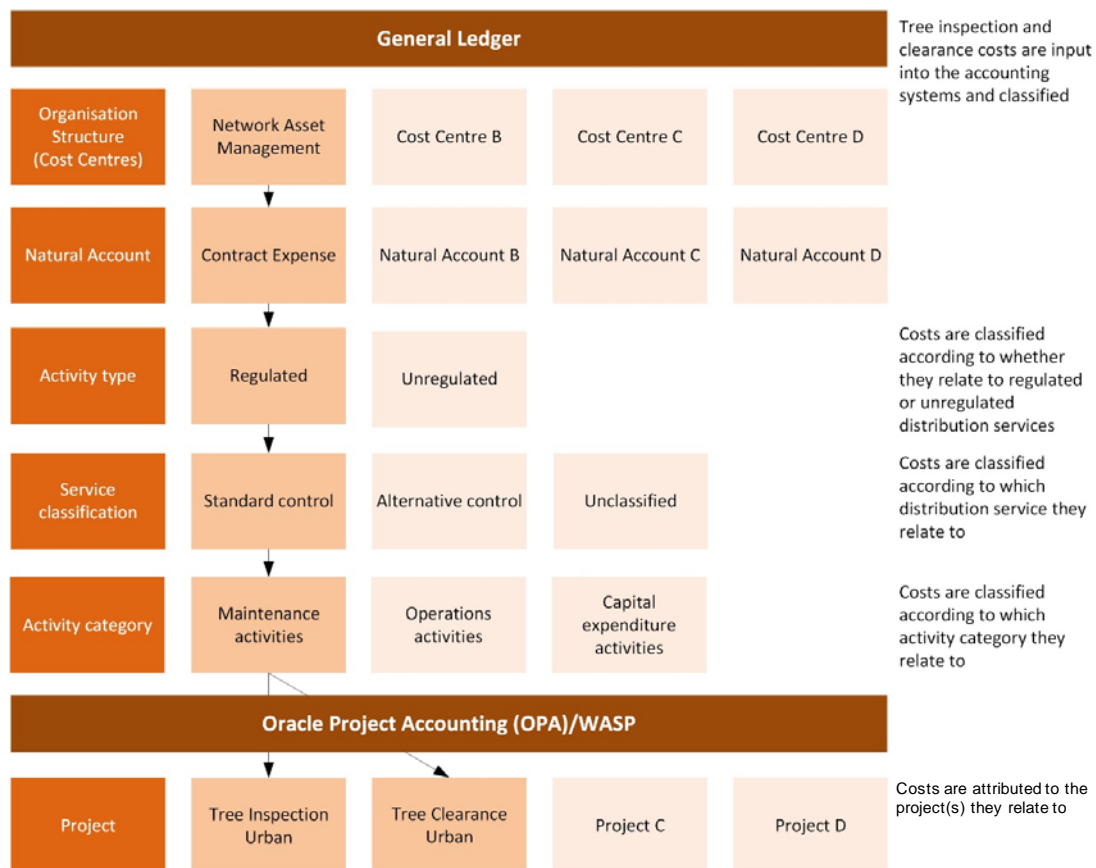
ActewAGL Distribution's electricity network costing is principally carried out in the Works Management System (WMS) and Oracle Project Accounting (OPA). A summary of the disaggregation of costs in these systems is described in Table 4 below.

Table 4 Cost disaggregation in accounting systems

Cost element	Description
Cost centre	The cost centre in the general ledger represents the internal management structure or area of responsibility within a business unit.
Natural account	The natural account represents the type of expenditure. Natural accounts are represented by numeric characters, which are allocated in ranges to assist in identifying the type of natural account.
Activity type	Whether the cost relates to a regulated or unregulated distribution service.
Service classification	Whether the cost relates to a standard control, alternative control or unclassified distribution service.
Activity category	Activity categories are as follows - <ul style="list-style-type: none"> • Maintenance activities • Operations activities; and • Capital expenditure activities.
Project	Applicable costs are assigned to project/s.

Figure 5 sets out the process for attributing or allocating costs to cost centres, natural accounts, activity types, regulated activity categories and projects in the general ledger. Figure 5 includes as an example how tree inspection and clearance (project) costs would be attributed to a regulated activity category (maintenance activities), natural account (contract expense) and cost centre (Network – Asset Management).

Figure 5 Process for attributing project costs to regulated and unregulated activities



7.3 Consistency with the CAM obligations in the Ring-fencing Guideline

Clause 2.2.6 of the CA Guidelines requires that ActewAGL Distribution's detailed principles, policies and approach to attribute costs or to allocate costs between categories of distribution services must be consistent with the Ring-fencing Guideline.

Amongst other obligations, the Ring-fencing Guideline requires that DNSPs meet obligations in relation to separate accounts and cost allocation and attribution in order to prevent DNSPs from providing other services that could be cross-subsidised by its distribution services.¹⁷ ActewAGL Distribution sets out below its approach to comply with the ring-fencing obligations.

7.3.1 Separate Accounts

As described in section 2.3 above, ActewAGL Distribution maintains financial accounts for non-regulated services that are separate from the financial accounts for the regulated

¹⁷ AER (2017) *Ring-fencing Guideline Electricity Distribution* p.6, 11, 12

electricity distribution services. This approach complies with clause 3.2.1 of the Ring-fencing Guideline that requires ActewAGL Distribution to maintain appropriate internal accounting procedures to record transactions between the accounts of the regulated electricity distribution services and accounts of affiliated entities.

7.3.2 Cost allocation or attribution

As described in section 8, the operating expenditures and capital expenditures associated with the relevant assets for unregulated services are directly attributed to the assets and services wherever possible.

As described in section 9, any shared costs, such as divisional support costs, are allocated using an appropriate driver.

Costs are allocated to non-regulated/contestable services in a manner that is consistent with the cost allocation principles and policies in this CAM document. This is in compliance with the obligation in clause 3.2.2 of the Ring-fencing Guideline that requires the CA Principles and ActewAGL Distribution's CAM to apply to the allocation of costs between the regulated electricity distribution services and non-regulated services.

8. Directly attributable costs

8.1 Overview

This section provides details about the approach ActewAGL Distribution uses for directly attributable costs, consistent with the principles and policies described in section 7.

ActewAGL Distribution's directly attributable electricity network costs comprise the following components:

- Direct project costs, including the costs of materials, contract services and other expenses that can be directly attributed to particular projects and services;
- Payroll and payroll-related costs; and
- Leasing costs for motor vehicles, plant and computers.

8.2 Attribution of direct costs

Under ActewAGL Distribution's 2018 CAM document, direct project costs and payroll costs are directly attributed to the different categories of distribution services. Costs are initially attributed to projects, which are then assigned to either regulated or unregulated services. Regulated services are further split into standard control distribution, standard control transmission and alternative control services.

Wherever possible, costs are attributed directly to projects and activities through Oracle Project Accounting (OPA) and Works Management System (WMS). Payroll and payroll related costs (superannuation, payroll tax, long service leave, and workers compensation) are attributed on the basis of time booked against projects in electronic or manual time sheets. Some payroll costs must be shared across projects and services, as part of cost centre overheads. These costs are minimal and comprise the costs of administration and managerial roles that cannot easily be charged to defined projects.

A range of other costs are also directly attributed to projects. These include the costs of materials and contract services and other project-specific costs. Most contractor costs, including large items such as payments for pole inspection services and underground boring, are attributed directly to projects. All plant and equipment is leased, with a few minor exceptions, and as far as possible, these costs are attributed directly to projects.

Table 5 below details the cost driver as the basis for each cost that is directly attributable to electricity distribution services.

Table 5 Attribution of direct electricity distribution services costs

Cost	Description	Service(s) attributed to:	Base of attribution
Direct project costs	Materials, contracted services and other costs that can be directly attributed to projects	Standard control Alternative control Unregulated	All directly attributed via Oracle Project Accounting (OPA) and Works Management System (WMS).
Payroll and payroll related costs	Salaries, wages, and other payroll related costs (superannuation, payroll tax, workers compensation, and long service leave)	Standard control Alternative control Unregulated	All directly attributed via OPA and WMS. Based on time booked against projects.
Leasing costs	Plant and equipment	Standard control Alternative control Unregulated	Attributed directly to projects as far as possible, based on hours booked against projects. There are some shared leasing costs but they are included in electricity networks overheads (see 'Shared costs' section 9).

9. Shared costs

9.1 Allocation of shared costs

This section provides details about the approach ActewAGL Distribution uses for the allocation of shared costs, consistent with the principles and policies described in section 7.

From time to time, certain shared costs allocations may change within the regulatory control period due to changes in the causal drivers such as payroll costs, which is measured by staff numbers. This is consistent with clause 2.2.1 (2) G of the CA Guidelines.

ActewAGL Distribution's shared electricity network costs comprise the following components:

- Electricity networks overheads; and
- Corporate services costs.

Electricity networks overheads include all the miscellaneous cost centre costs not attributed directly to projects but are shared across all services using the non-causal driver. Table 5 below details the appropriate causal allocator for the allocation of shared electricity distribution services costs.

Corporate services costs include corporate services provided by ActewAGL Distribution's Corporate Services to ActewAGL Distribution – Electricity and Gas. These costs are allocated to business divisions using an appropriate causal allocator where possible and then allocated across service categories using total direct (direct project, payroll and payroll related and leasing) costs as the non-causal driver.

Table 6 Allocation of shared electricity distribution services costs

Cost	Description	Service(s) allocated to:	Allocator and Reason for Allocation
Electricity networks overhead costs	Includes all the miscellaneous cost centre costs not attributed directly to projects. They include: motor vehicle leases, computing equipment leases, consumables, rates, insurance, staff training costs, stationary, electricity, protective clothing.	Standard control Alternative control Unregulated ¹⁸	Allocated between regulated and unregulated services against projects in proportion to direct labour. The reason for the allocation is that the labour is the key cost driver in common across services.

¹⁸ No unregulated distribution services are currently supplied by Evoenergy.

Cost	Description	Service(s) allocated to:	Allocator and Reason for Allocation
Corporate overheads	See Table 7 in section 10.2 Corporate Service Costs	Standard control Alternative control Unregulated	<p>Prior to allocation between service categories, corporate overheads are allocated amongst the entities (ActewAGL electricity and gas, Icon Water and ActewAGL Retail).</p> <p>The Evoenergy's share of corporate services is allocated between regulated and unregulated services against projects in proportion to total direct (direct project, payroll and payroll related and leasing) costs.</p> <p>The reason for the allocation is that the proportion of direct costs comprises the key cost drivers in common across business divisions.</p>

9.2 Electricity network overheads

Electricity networks overheads include remaining costs incurred by Evoenergy that cannot be directly attributed to projects but are shared across all services using the non-causal driver. These include the leasing costs of sedans, utilities and line trucks, some contract payments such as depot security, consumable items such as gloves and miscellaneous small hardware items (for example, nuts and bolts), computing equipment leases, rates, insurances, staff training costs, stationary, electricity and protective clothing.

Electricity networks overhead costs are allocated by electricity networks to gas networks based on proportion of expenditure (total of capital and operating) attributable to each network. This applies to a limited number of positions, which are within electricity networks that share costs with both businesses, being the General Manager and Evoenergy finance staff.

These electricity network cost centre overheads, or divisional support costs, are allocated to service categories using total payroll and payroll related costs as the driver. Payroll and payroll related costs have a strong causal relationship with electricity networks overheads as generally these costs rise as more people are employed.

10. Corporate services costs

10.1 Overview

ActewAGL Corporate provides corporate services to ActewAGL Distribution's businesses (electricity and gas) as well as the entities Icon Water Ltd and ActewAGL Retail that are affiliated through the joint venture. ActewAGL Corporate allocates these costs amongst the business divisions by issuing to them a Fixed Price Service Charge (FPSC) that allocates the corporate services costs using either a causal driver where possible or non-causal driver where a causal driver is not appropriate.

Once ActewAGL Distribution's electricity distribution business receives its allocation, these costs are then further allocated to the different electricity distribution service categories using the non-causal allocator based on total direct (direct project, payroll and payroll related and leasing) costs as a causal relationship cannot be established without undue cost and effort.

Corporate services provided by ActewAGL Corporate include:

- Office of the Chief Executive
- Human Resources (HR)
- Facilities, Logistics and Property
- Regulatory Affairs and Pricing
- Legal and Secretariat
- Internal Audit and Risk Management
- Corporate Affairs and Communications
- Corporate Finance
- Contracts and Procurement
- Work health and safety
- Environment and Quality
- Accounts Payable
- Records and Information Management
- Information and Communications Technology

10.2 Allocation of corporate services costs to business divisions

A summary of how costs are allocated to business divisions, including electricity networks, is depicted in the Table 7 below. The last column of Table 7 includes both causal drivers applied to costs where the drivers are identifiable and the non-causal allocator where drivers are not identifiable.

Table 7 Allocation of corporate services costs to electricity distribution

Division	Description	Costs allocated to	Allocator and Reason for Allocation
CEO	Includes the office of the Chief Executive	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	There is no ideal causal allocator for these costs as CEO activity varies from week to week. Costs are allocated to each division on the basis of the non-causal driver.
People & Safety	Includes: HR Planning & Projects; HR Service Centre; Employee Health; Organisational Capability; HR Business Partners; and Workplace Relations.	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	HR costs are allocated to divisions based on FTE numbers (excluding Corporate Services). Salary and HR costs for Corporate Services employees are allocated using the non-causal driver because of the corporate, non-division specific nature of their work.
Finance & Facilities	Group Performance, Advisory & Treasury, Accounting and Tax, Accounts Payable, Regulatory Affairs and System support, Interest Revenue.	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Regulatory Affairs costs are allocated to the divisions based on time spent working on each. All other corporate finance costs are allocated to the divisions using the non-causal driver because of the corporate, non-division specific nature of these costs. Interest revenue is directly allocated to the divisions (where applicable) as a percentage of annual revenue.
Finance & Facilities: Accounts Payable	Accounts Payable	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Costs are allocated according to the number of invoices processed for each division as a percentage of total invoices.

Division	Description	Costs allocated to	Allocator and Reason for Allocation
Finance & Facilities: Contracts and Procurement	Contracts and Procurement	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Costs are allocated to divisions (excluding Corporate Services) according to the number of contracts held by each division. Costs relating to contracts for Corporate Services are allocated across the divisions using the non-causal driver due to the non-division specific nature of these costs.
Finance & Facilities: Facilities & Fleet	Includes the management of property and security at all ActewAGL and Icon Water related sites. Management of the warehouse, systems spares, the catalogue and fleet management.	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Leasing and occupancy costs or a share of costs are attributed directly to the division to which the costs relate, or their relative portions. Warehousing costs are allocated according to floor space occupied for inventory belonging to each division. Purchasing costs are allocated according to the number of purchase orders raised for each division. Fleet management costs are allocated to each division based on the number of motor vehicles per division. The remaining costs that cannot be directly attributed (e.g. salaries, corporate floor space and head office security) are allocated across relevant divisions using the non-causal driver.
Legal & Corporate Affairs	Enterprise Information, legal services, risk & business resilience planning, brand communications & corporate affairs, and environment, quality & systems.	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Internal audit is allocated to divisions based on time spent working on each. All other costs are allocated to the divisions on the basis of the non-causal driver because there is no idea causal driver. These corporate, non-division specific activities vary from week to week.
People & Safety: Safety, Health, & Work Practices	Health and Safety.	Electricity Networks Gas Networks	Staff costs are allocated across the divisions according to the time spent working on each. Remaining Safety, Health, & Work Practices costs associated with activities that are of an

Division	Description	Costs allocated to	Allocator and Reason for Allocation
		Contestable Business Unit Icon Water ActewAGL Retail	organisation-wide nature are allocated across the divisions based on the non-causal driver.
Integrated Delivery Program	Program governance and management	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Costs are allocated on the basis of the non-causal driver.
Business Systems Division (BSD): BSD Executive	Office of the BSD Executive	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	The BSD Executive works on a variety of projects across all divisions. Therefore, costs are allocated on the basis of the non-causal driver.
BSD: Support and Operations	Daily support for the IT systems. Facilitate identification, design and implementation of business and systems solutions. Procurement, leasing and asset tracking of all IT equipment. Support and management for all communications technology services including fibre, Field communication services, WAN/LAN, Internet and Cloud connections that is utilised across ActewAGL.	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Costs are allocated on the basis of time spent on specific divisions' requirements or usage of infrastructure.
BSD: Applications & Delivery	Delivery of Information Communication Technology projects and programs operating within BSD.	Electricity Networks Gas Networks	Costs are allocated on the basis of time spent on specific applications and projects for divisions.

Division	Description	Costs allocated to	Allocator and Reason for Allocation
		Contestable Business Unit Icon Water ActewAGL Retail	
BSD: Customer, Architecture & Risk Services	Solutions architecture, Disaster Recovery, external audits, risk assessment and management, and reporting.	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Costs are allocated on the basis of time spent on specific divisions' requirements.
BSD: Data, Governance & Security	ICT Security governance, management, development, and delivery of the cyber security program of work and security operation.	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Costs are allocated on the basis of the non-causal driver.
BSD: Enterprise Architecture & Digital	Enterprise and solution architecture, digital capabilities	Electricity Networks Gas Networks Contestable Business Unit Icon Water ActewAGL Retail	Costs are allocated on the basis of key organisational IT dependencies and divisions' requirements.

Aside from the allocation of costs according to identifiable causal drivers as identified in Table 7, ActewAGL Distribution allocates the remaining shared corporate services costs across business divisions using the non-causal driver. The non-causal driver is calculated as the weighted average of opex and employee numbers for each division. That is:

- 50 per cent of the cost is allocated on the basis of operating expenditure (ie. each division's opex as a proportion of total opex); and

- 50 per cent is allocated on the basis of employee numbers (ie. each division's FTEs as a proportion of total FTEs).

ActewAGL Distribution considers that the non-causal driver is the most appropriate allocator for sharing corporate costs across business divisions for remaining costs not already directly attributable by an identifiable cost driver. It comprises operating expenditure and employee numbers, which both have a well-established causal relationship with the consumption of corporate services. Operating expenditure is generally considered a good proxy for the consumption of corporate services and has the added advantage of providing an incentive for business divisions to reduce operating expenditure. Employee numbers has a strong causal relationship with corporate services, particularly as these relate to human resources, information technology and facilities management costs. Generally, more employees generate higher cost pressure on corporate services, although in certain cases economies of scale are involved.

These weightings will remain unchanged throughout the regulatory control period. The percentage of shared costs allocated to each business division will vary over the regulatory period in line with changes in their opex and FTEs.

Table 8 provides an example, and demonstrates how the non-causal driver is calculated. The information contained in it should not be relied upon for any other purpose. In this instance, the non-causal driver to be used in allocating a share of corporate costs to electricity networks is calculated to be 42.6 per cent. That is, 42.6 per cent of shared corporate costs (that cannot be directly attributed or allocated via a causal driver) should be allocated to the electricity distribution network.

Table 8 Example of calculation of the non-causal driver

Electricity Network Share of Corporate Costs using Indirect Driver				
	Electricity Networks	ActewAGL	Electricity Network Share	Formula
Opex	92,500	251,500	36.80%	A
FTE	437	902	48.40%	B
Non-causal driver			42.60%	(A+B)/2

Table 9 provides an indicative example to demonstrate ActewAGL Corporate's approach to allocating shared corporate costs to business divisions. In this instance, EHSQ – safety management costs are directly attributed wherever possible. Remaining costs are allocated using a combination of causal (FTE) and non-causal drivers.

Table 9 Example of approach to allocating shared corporate costs to business divisions

Division	Costs to allocate	Driver	Unallocated	Gas Network	Electricity Network	Icon Water	ActewAGL Retail	Total
EHSQ-Safety Management	Division specific employee	Direct	0.0%	0.0%	0.0%	0.0%	100.0%	100%
	Residual overheads	Non-causal driver	0.0%	5.7%	42.6%	33.5%	18.1%	100%

10.3 Allocation of corporate services costs to service categories

The AER CA Guidelines state that where a shared cost is immaterial or a causal relationship cannot be established, then a DNSP may allocate shared costs to a particular category of distribution services using the non-causal allocator. This CAM is the work paper that documents the allocation of shared costs required by the CA Guidelines to be provided to the AER by ActewAGL Distribution.¹⁹

This CAM documenting for each shared cost:

- the basis of allocation;
- the reason chosen for that basis;
- a demonstration that the shared cost is immaterial or an explanation of why no causal relationship could be established without undue cost and effort; and
- a numeric quantity or percentage of the non-causal allocator applied to each category of distribution service and in total.

Prior to the allocation of shared corporate services costs to a particular category of distribution services, these costs are first allocated to business divisions (ActewAGL Distribution – Electricity and Gas, Icon Water Ltd and ActewAGL Retail) using causal and non-causal drivers. Following allocation of corporate services costs to business divisions, the electricity network's costs are allocated to service categories through the non-causal allocator based on total direct (direct project, payroll and payroll related and leasing) costs.

There is no ideal causal allocator for these costs, as activities vary frequently depending on business requirements, and often, cannot be linked back to any particular project or service category.

ActewAGL Distribution considers that it would be very difficult to establish a causal relationship between these shared corporate costs and their direct drivers because of the significant resource commitment requirement to record, monitor and analyse the

¹⁹ Clause 2.2.4(c)(3) of the AER (2008) Electricity Distribution Network Service Providers Cost Allocation Guidelines p. 10

consumption of shared services by service categories. For example, this would require that all ActewAGL Corporate staff commence filling out detailed time sheets. ActewAGL Distribution considers this a significant and costly administrative burden that may or may not result in a superior allocation of shared costs across the service categories.

ActewAGL Distribution proposes to allocate these shared corporate services costs across service categories using the non-causal driver that is calculated as the weighted average of total direct (direct project, payroll and payroll related and leasing) costs. ActewAGL Distribution considers that the non-causal driver is the most appropriate allocator for sharing corporate costs across service categories.

Total direct costs have a strong causal relationship with corporate services as generally the more direct costs are attributed to projects, the larger the projects and more pressure there is on corporate services to support those projects.

Table 10 provides an example that demonstrates how the non-causal driver is calculated.

The information contained in it should not be relied upon for any other purpose. In this instance, out of the \$1,214,000 in CEO corporate costs that are allocated to electricity networks, 58.5% are allocated to standard control services, 29.4% is allocated to alternative control services and 11.8% is allocated to unregulated services.

Table 10 Example of calculation of the non-causal driver for CEO corporate services costs

Service category share of electricity network share of CEO corporate costs using non-causal driver				
Electricity network	Standard control	Alternative control	Unregulated	Total
Total direct costs	\$10,000,000	\$5,000,000	\$2,000,000	\$17,000,000
Percentage of total direct costs	$(\$10,000,000 / \$17,000,000) = 58.8\%$	$(\$5,000,000 / \$17,000,000) = 29.4\%$	$(\$2,000,000 / \$17,000,000) = 11.8\%$	100%
Share of CEO costs	$58.5\% \times \$1,214,000$	$29.4\% \times \$1,214,000$	$11.8\% \times \$1,214,000$	\$1,214,000
Allocation of CEO costs	\$713,832	\$356,916	\$143,252	\$1,214,000

11. Audit and records management

11.1 Establish and Maintain Accounting records

ActewAGL Distribution's business management systems are the means through which all ActewAGL expenditure is recorded and maintained for a minimum of seven years. These systems, including TM1, Oracle, excel financial models and common drivers are used by ActewAGL Distribution to maintain records of all directly attributable costs, and to allocate shared costs between categories of distribution services. These records form the basis for independent verification of the annual regulatory accounts.

ActewAGL Distribution will maintain these records within its integrated financial and assets management systems, such as, but not limited to, ActewAGL Distribution's current general ledger system Oracle, as well as other specialist application systems and supporting analysis in spreadsheets.

11.2 Record retention

ActewAGL Distribution maintains financial source documentation and financial records in a manner that is consistent with Australian Accounting Standards and other statutory requirements. ActewAGL Distribution submits financial information to the AER on an annual basis in response to the AER's Annual Reporting Regulatory Information Notices (RINs). This information is audited, in accordance with the RIN requirements.

When preparing reports for submission to the AER, ActewAGL Distribution will continue to make available any information required to substantiate compliance with the CAM and required by any guidelines published by the AER, including the Electricity Distribution Ring-fencing guideline. These work papers and documents will be in sufficient detail to allow:

- the AER or an auditor to replicate the cost and asset allocation outcomes reported to the AER; and
- ActewAGL Distribution to demonstrate that it has complied with the requirements of the CAM, prepared in accordance with the AER's CA Guidelines.

ActewAGL Distribution maintains all source documents and records (time sheets, invoices etc) as well as general ledger trial balances and cost allocation work paper in compliance with all regulatory requirements. In relation to services provided by ActewAGL Retail to ActewAGL Distribution, the Service Level Agreements between the two parties require both to maintain records and supporting documentation sufficient to permit a complete audit of the provision of services, and of payments made in connection with the agreements.

12. Compliance monitoring

12.1 Organisational responsibilities for compliance

ActewAGL Distribution's Chief Finance Officer is responsible for monitoring ActewAGL Distribution's compliance with the approved cost allocation methodology. Operationally, the Commercial Services Branch within the Finance and Facilities Division is responsible for monitoring and ensuring compliance with the CAM on a day-to-day basis.

ActewAGL Distribution's Commercial Manager – Networks is responsible for ensuring the preparation and maintenance of the CAM across the organisation and regularly reports to ActewAGL Distribution's Chief Finance Officer on the CAM and its application in preparing annual financial and regulatory statements. The Commercial Manager - Networks works closely with the Commercial Services Branch within the Finance and Facilities Division to ensure that any financial information prepared for the AER complies with the CAM.

The Commercial Services Branch within the Finance and Facilities Division is responsible for preparing annual Regulatory Accounts in accordance with the approved CAM and the AER CA Guidelines. Compliance is endorsed by executive management. The Chief Executive Officer will sign a Statutory Declaration attesting that the Regulatory Accounts, to the best of their knowledge, is true and accurate in all material respects.

ActewAGL Distribution will further monitor its compliance with the CAM and the AER's CA Guidelines through the following:

- in processing and approving costing entries, Finance staff review the coding of costs;
- cost allocation models are subject to review by the Regulatory Accounting team and external audit during the preparation and audit of the annual regulatory accounting statements;
- the Directors will make such enquiries as may be necessary to allow them to sign the Responsibility Statements for regulatory financial information submitted to the AER; and
- where required by the AER, financial information prepared under the CAM shall be subject to independent audit.

12.2 Auditing

ActewAGL Distribution will monitor its compliance with the CAM and the AER CA Guidelines through the undertaking of internal annual reviews of its cost allocation models, templates and work papers. This review is to be undertaken by the Finance and Facilities Division.

External auditors are required to audit financial data contained in the RIN for compliance with the CAM prior to it being submitted to the AER. ActewAGL Distribution engages independent auditors to audit the annual statutory financial statements, internal controls

and the regulatory accounts, derived from the application of the CAM. The independent auditors will provide assurance of ActewAGL Distribution's compliance with the CAM and the AER CA Guidelines. The annual financial statements, Oracle transactions and TM1 processes are reviewed by external audit. This process is overseen by the Commercial Manager – Networks.

13. Commencement Date

The commencement date for this update to the CAM is 31 July 2018, or earlier, as submitted by ActewAGL Distribution.

Glossary

AASB	Australian Accounting Standards Board
AER	Australian Energy Regulator
BSD	Business Systems Division
CA	Cost Allocation
CAM	Cost Allocation Method
CBU	Contestable Business Unit
DMS	Drawing Management System
DNBP	Distribution Network Service Provider
EHSQ	Environment, Health, Safety and Quality
FPSC	Fixed Price Service Charge
FTE	Full-Time Equivalent
HR	Human Resources
IDP	Integrated Delivery Programme
JAM	Jemena Asset Management Pty Ltd
NER	National Electricity Rules
NMI	National Metering Identifier
OPA	Oracle Project Accounting
RIN	Regulatory Information Notice
ROLR	Retailer of Last Resort
WMS	Works Management System

Appendix 1: Rule and Guideline requirements

This methodology has been constructed with the objective of adhering to the AER CA Guidelines, to satisfy relevant criteria and requirements outlined in the NER. The tables below outline ActewAGL Distribution's approach to satisfying the requirements for cost allocation methods under the AER CA Guidelines and the NER.

Table 11 Distribution Network Service Provider obligations in the NER to develop a CAM

NER	Guideline	Requirement	Relevant section of CAM
6.15.4(a)	1.5; 3.3	DNSP must develop a proposed CAM for submission to the AER	Submission of the CAM to the AER addresses this requirement. This requirement is also referenced in section 2.
6.15.4(b)	1.5	DNSP's proposed CAM must give effect to and be consistent with the Cost Allocation Guidelines	Table 12 details how this CAM document complies with the format and content requirements of the Cost Allocation. Table 13 details how this CAM document addresses the NER CAM principles and policies.

Table 12 CA Guideline Requirements for the Format and contents addressed in this CAM document

Cost Allocation Guidelines ²⁰	Relevant section of CAM
(1) A version history and date of issue for the document	Refer to 'Document management' section of the CAM.
(2) A statement of the nature, scope and purpose of the document and the way in which it is to be used by the distributor.	Refer to section 2.
(3) Details of the accountabilities within the distributor for the document in order to set out clearly: A. the distributor's commitment to implementing the CAM; and B. responsibilities within the distributor for updating, maintaining and applying the CAM and for internally monitoring and reporting on its application.	Refer to sections 5 and 11.

²⁰ Clause 3.2(a) of AER (June 2008) *Electricity Distribution Networks Services Providers Cost Allocation Guidelines* p. 12-13

Cost Allocation Guidelines ²⁰	Relevant section of CAM
(4) A description of the distributor's corporate and operational structure to enable the AER to understand how the distributor is organised to provide its distribution services.	Refer to sections 3 and 0 for the respective corporate and operational structures.
(5) A specification of the categories of distribution services that the distributor provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided.	Refer to section 6. Section 6.1 specifies categories of distribution services and section 6.2 describes the types of persons to whom those services are provided.
(6) The distributor'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 the Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.	Refer to sections 7, 8 and 9.
(7) A description of how the distributor will maintain records of the attribution or allocation of costs to, or between, categories of distribution services to enable any such attribution or allocation to be: A. demonstrated to the AER, in accordance with clause 5.2 of these Guidelines; and B. audited or otherwise verified by a third party, including the AER, as required.	Refer to section 11.
(8) A description of how the distributor will monitor its compliance with the CAM and the Guidelines.	Refer to section 12.
(9) Details of the proposed date on which the CAM will commence, having regard for clause 4.1(d) of these Guidelines.	Refer to section 13.

Table 13 NER Cost allocation principles and policies addressed in this CAM document

NER	Guideline	Requirement	Relevant section of CAM
6.15.2(1)	2.2.1(a)	Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable: – AER to replicate reported outcomes – DNSP to demonstrate that it is meeting requirements	Section 7 of the 2018 CAM document details ActewAGL Distribution's principles and policies for allocating costs between categories of distribution services. The approach to allocate directly attributable costs and shared costs are

NER	Guideline	Requirement	Relevant section of CAM
			detailed in sections 8 and 9 respectively, to demonstrate that requirements are met and ensuring that the AER can replicate reported outcomes.
	2.2.1(b)(1)	Include specified information on directly attributable costs to enable AER to replicate reported outcomes	Refer to section 8.
	2.2.1(b)(2)	Include specified information on shared costs to enable AER to replicate reported outcomes	Refer to section 9.
6.15.2(2)	2.2.2	Attribute costs directly to, or allocate costs between, categories of distribution services based on substance of underlying transaction or event not legal form	Refer to section 7.
6.15.2(3)(i)	2.2.3	Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service	Refer to sections 7 and 8.
6.15.2(3)(ii)	2.2.4	Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that: 1. Shared cost is immaterial 2. Causal relationship cannot be established without undue cost or effort in which case may use non-causal allocator in specified circumstances	Refer to sections 7 and 9.
6.15.2(4)		Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator	Refer to sections 8 and 9 for details on approach and justification of cost allocation method for directly attributable and shared costs respectively.
6.15.2(5)	2.2.5	Do not allocate the same cost more than once	Refer to section 7.

NER	Guideline	Requirement	Relevant section of CAM
6.15.2(6)	2.2.6	Detailed principles, policies and approach used to attribute costs directly to, or allocated costs between, categories of distribution services must be consistent with the Distribution Ring Fencing Guideline	The CAM refers throughout to the Ring-Fencing Guideline. See Table 14.
6.15.2(7)	2.2.7	Costs that have been attributed or allocated to distribution services must not be reattributed or reallocated to another service during the regulatory control period	Refer to section 7.

Table 14 Ring-fencing Guideline Obligations that relate to the Cost Allocation Method

Ring-fencing Guideline ²¹	Relevant section of CAM
3.1 A DNSP can apply for a waiver of the legal separation obligation	Refer to section 2.
3.2.1 Separate Accounts: (a) A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities	Refer to section 7.
3.2.2. Cost allocation and attribution: (a) A DNSP must allocation and attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.	Refer to section 7, section 8 and section 9.
(b) a DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2.(a), and must not allocate or attribute other costs to the distribution services it provides.	Refer to section 12.
(c) a DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2 (a) and 3.2.2 (b)	Refer to section 11.
4.2.1 Physical separation/co-location In providing direct control services a DNSP must use offices that are separate from the offices from which a related electricity service provider provides contestable electricity services. Exemptions apply.	Refer to section 0.

²¹ Clause 3.2 and 4.2 of the AER (2017) *Ring-fencing Guideline Electricity Distribution* p.11-12, 13-15

Ring-fencing Guideline ²¹	Relevant section of CAM
<p>4.2.2 Staff sharing</p> <p>A DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider. Exemptions apply.</p>	<p>Refer to section 0.</p>