

# AusNet Cost Allocation Method

AER Final Decision

July 2025

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Tel: 1300 585 165

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## Shortened forms

Table text heading			
AER	Australian Energy Regulator		
CAM	Cost Allocation Method		
Distributor, DNSP	Distribution Network Service Provider		
NEL	National Electricity Law		
NEM	National Electricity Market		
Rules, NER	National Electricity Rules		
Guidelines, CAG, Cost Allocation Guidelines	Distribution Cost Allocation Guidelines		

# 1 Introduction

## 1.1 Summary

On 16 May 2025 AusNet Electricity Services Pty Ltd (AusNet) submitted a Cost Allocation Method (CAM) to the AER for approval — see Appendix A to this paper. AusNet provides electricity distribution services in Victoria, in addition to electricity transmission and gas distribution services, also in Victoria. A CAM is used to separately account for the costs of providing electricity distribution services, including from other services the distributor might provide.

We have determined AusNet's proposed CAM:

- accords with the requirements of the National Electricity Law (NEL) and National Electricity Rules (the rules)
- gives effect to and is consistent with our Distribution Cost Allocation Guidelines (our guidelines).

Accordingly, we have approved AusNet's proposed CAM under clause 6.15.4(c) of the rules.

## 1.2 Background

The AER is responsible for regulating revenues of the electricity distribution businesses in Victoria in accordance with the NEL and the rules. Chapter 6 of the rules provides further details on the economic regulation of electricity distribution services in Victoria.

Cost allocation concerns attributing a regulated business' costs, or allocating shared costs, between distribution service categories and non-regulated business sections. The different services provided by Distribution Network Service Providers (DNSPs) are defined in the NEL and the rules. They are:

- direct control services, comprising:
  - standard control services
  - alternative control services
- negotiated distribution services
- unclassified, or unregulated, services.

In our distribution determinations we classify distributor services to the above categories based on factors specified by the rules. The prices DNSPs charge for the different categories of distribution services depend on the costs incurred in providing those services. It is therefore important that cost allocation between service classifications accurately and fairly represents costs incurred in providing those services. We rely upon historical and forecast costs allocated in accordance with an approved CAM to determine prices charged, or revenues raised, by distributors such as AusNet.

Distribution regulatory proposals, or the regulatory arrangements proposed by DNSPs to us for a particular regulatory control period, must comply with an approved CAM. The CAM subject to this decision paper will be used by AusNet to develop its distribution regulatory

proposals. AusNet will also use its CAM to report to us annually for its regulated distribution business.

Following our approval, AusNet's approved CAM will remain relevant to its regulatory accounts, reporting and regulatory proposals until we approve a further CAM variation.

## 2 Rule requirements and assessment

### 2.1 Rule requirements

For DNSPs:

- Clause 6.15.4(a) of the rules requires a DNSP to submit to us for approval a document setting out its proposed CAM.
- Clause 6.15.4(b) requires that a CAM give effect to and be consistent with our distribution guidelines.
- Clause 6.15.4(c) provides for us to approve or refuse to approve a CAM submitted under paragraph (a).
- Clause 6.15.4(f) provides for a DNSP to amend its CAM from time to time, subject to our approval.

### 2.2 Assessment process

We have assessed AusNet’s amended CAM against the requirements of the NEL, the rules and our guidelines.

Amendments to AusNet’s CAM are limited to editorial changes reflecting amended staff position titles and the like, updated ownership and operational structure details, and descriptive (but not methodological) changes to its cost allocators. An approved CAM is required by the NER to set out these details.

From time to time, ownership or internal structure changes occur and mean that an approved CAM can become out of date. AusNet’s amended CAM updates these details to ensure its approved CAM accurately reflects its actual circumstances.

For example, the amended CAM updates AusNet’s operational structure to reference its lines of business:<sup>1</sup>

- electricity distribution
- electricity transmission
- gas distribution and metering
- development and future networks
- corporate groups.

The above description of AusNet’s operational structure replaces descriptive material that referenced regulated energy services, operations and services, and Mondo Power.<sup>2</sup>

The amended CAM also removes from AusNet’s listed categories of electricity distribution services the ‘negotiated distribution services’ category, because none of its services are classified as negotiated services.<sup>3</sup>

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<sup>1</sup> AusNet, *Electricity distribution cost allocation method*, May 2025, p.10.

<sup>2</sup> Mondo Power is AusNet’s affiliated entity, providing services in contestable markets.

<sup>3</sup> AusNet, *Electricity distribution cost allocation method*, May 2025, p.16.

The amended CAM further updates descriptive information relating to cost attribution and cost allocation but does not change the cost drivers/allocators themselves.<sup>4</sup> This means time series data reported to the AER will not be affected by these changes.

Our detailed assessment of AusNet's amended CAM against the requirements of NER chapter 6 and our guidelines is set out in section 3 of this paper.

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<sup>4</sup> AusNet, *Electricity distribution cost allocation method*, May 2025, section 5.



### **3 Consistency with our Cost Allocation Guidelines**

This section sets out our assessment of AusNet’s proposed CAM against the requirements of our guidelines.

### 3.1 AusNet CAM assessment

The format and content of AusNet's CAM are regulated by chapter 6 of the rules and clause 3.2(a) of our guidelines. Table 1 compares AusNet's proposed CAM against the requirements of chapter 6 and clause 3.2(a).

**Table 1 CAM assessment table**

#### General obligations

Rules	Guidelines	Requirements	Addressed
<b>6.15.4(a)</b>	1.5, 3.1(a)	DNSP must develop a proposed CAM for submission to the AER	Compliant
<b>6.15.4(b)</b>	1.5, 3.1(b)	DNSP's proposed CAM must give effect to and be consistent with the CAG	Compliant
	5.4	DNSP must maintain current copy of approved CAM on its website	Compliant

#### Contents of Cost Allocation Method

Guidelines	Requirements	Addressed
<b>3.2(a)(1)</b>	Version number	Page 2
<b>3.2(a)(2)</b>	DNSP's commitment to history and date of issue	Section 2.5
<b>3.2(a)(3)</b>	Statement of nature, scope and purpose of document and way it is to be used	Section 2.1
<b>3.2(a)(3)A</b>	Accountabilities for implementation	Section 2.2
<b>3.2(a)(3)B</b>	Responsibilities for updating, maintaining and applying document and for internally monitoring and reporting its application	Section 2.2
<b>3.2(a)(4)</b>	Description of corporate and operational structure	Sections 3.1 & 3.2
<b>3.2(a)(5)</b>	Specification of service categories and types of persons to whom services provided	Section 3.3

Guidelines	Requirements	Addressed
<b>3.2(a)(6)</b>	Principles and policies for attributing costs to, and allocating costs between, categories of distribution services in accordance with clause 2.2 of CAG	Appendix: Allocators
<b>3.2(a)(7)</b>	Description of how will maintain records of attribution and allocation	Section 2.4
<b>3.2(a)(8)</b>	Description of how will monitor compliance with CAM and Guidelines	Section 2.3
<b>3.2(a)(9)</b>	Commencement date	Section 2.5

### Cost allocation principles and policies

Rules	Guidelines	Requirements	Addressed
<b>6.15.2(1)</b>	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	Compliant
		2.2.1(b)(1) Include specified information on directly attributable costs to enable AER to replicate reported outcomes	Compliant
		2.2.1(b)(2) Include specified information on shared costs to enable AER to replicate reported outcomes	Compliant
<b>6.15.2(2)</b>	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	Compliant
<b>6.15.2(3)(i)</b>	2.2.3	Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service	Compliant
<b>6.15.2(3)(ii)</b>	2.2.4	Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that: Shared cost is immaterial	Compliant
		Causal relationship cannot be established without undue cost or effort in which case may use non-causal allocator in specified circumstances	
<b>6.15.2(4)</b>		Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator	Compliant

Rules	Guidelines	Requirements	Addressed
<b>6.15.2(5)</b>	2.2.5	Do not allocate the same cost more than once	Compliant
<b>6.15.2(6)</b>	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 Guidelines	Compliant
<b>6.15.2(7)</b>	2.2.7	Costs that have been attributed or allocated costs to distribution services must not be reattributed or reallocated to another service during the regulatory control period	Compliant