
AusNet Electricity Services Pty Limited

Electricity Distribution Cost Allocation Method

May 2025



Version History

Version Number	Issue Date	Details of Amendment
1.0	December 2010	Approved Public version
2.0	September 2014	Reflected changes in corporate and organisational structure, chart of accounts
2.1	November 2014	Reflects Service Classification set out in Final Framework and Approach for the Victorian Electricity Distributors (24 October 2014)
3.0	September 2018	Reflected changes in the corporate and organisational structure and the Distribution Services provided
3.1	September 2019	Reflected changes in the shared cost allocation approach and in the operational structure
4.0	May 2025	Reflected changes in the corporate and operational structure

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In accordance with the National Electricity Rules (**NER**), AusNet must submit a proposed Cost Allocation Method (**CAM**) to the Australian Energy Regulator (**AER**) for approval.

1. Background

This document sets out the method used by AusNet for the attribution and allocation of costs to, and between, categories of electricity distribution services. The methodology has been developed in accordance with the requirements of the NER and the AER's Cost Allocation Guidelines for Victorian Electricity DNSPs (the Guidelines), dated 26 June 2008.

The NER allows AusNet to amend its approved CAM, subject to the requirements contained in Clause 4.2 of the Guidelines.

While AusNet continues to use its causal cost driver approach to allocate costs (no material changes from the AusNet CAM last approved by the AER in November 2019), there have been changes to AusNet's ownership arrangements made in February 2022 and corporate and operational structures made in September 2024. While these changes have not impacted the quantum of costs allocated to Electricity Distribution, nor required changes to our cost allocation method, to ensure the relevance of the CAM and to effectively promote the cost allocation principles, AusNet has revised its CAM, subject to the AER's approval.

2. Application and Maintenance of the Cost Allocation Method

2.1. Nature, Scope and Purpose

AusNet's CAM: documents the principles, policies and approach for attributing direct costs to, and allocating shared costs between the categories of electricity distribution services that it provides.

The CAM supports the purpose of the AER's Guidelines (**the Guidelines**) by promoting the principles of effective cost allocation, which in turn supports the national electricity objective by:

- ensuring that only efficient costs are allocated to different services;
- ensuring that prices paid by end customers for these services are not inappropriately inflated or discounted; and
- promoting transparency in information provided to the AER, and in the decisions made by the AER.

The CAM is used in the preparation of capital and operating expenditure forecasts for building block proposals and for annual regulatory reporting obligations (Regulatory Information Order (RIO)). Pursuant to clause 5.1 (b) of the Guidelines, AusNet will apply its CAM 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, noting that none of the distribution services AusNet provides are currently classified as negotiated distribution services;
- annual statements 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).

The document also provides guidance for AusNet management and staff in relation to cost allocation principles, policy and ongoing obligations as they relate to the operations and delivery of distribution services. The electricity distribution services provided by AusNet, the nature of costs associated with those services and the methodology for attributing and allocating these costs is set out in sections 3, 4 and 5.

AusNet continues to undertake a range of business structure and process review projects to improve its business model. While the cost allocation methodology described in this document reflects the arrangements currently in place, AusNet is committed to the ongoing review and enhancement of all processes, procedures, systems and tools associated with this critical element of its business performance.

In this regard, AusNet recognises its obligations and the process, under the NER, for seeking any future amendments to its CAM once approved by the AER. Should circumstances change materially, either from a quantitative or qualitative perspective (e.g. due to significant corporate or structural changes), then AusNet will approach the AER to amend its CAM. A change in circumstances will be deemed to be material if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position of AusNet electricity distribution business, gained by an assessment of financial information relating to AusNet's electricity distribution business.

2.2. Accountabilities and Responsibilities

The following table sets out the key accountabilities and responsibilities for updating, maintaining, applying and monitoring the CAM.

Accountability	Responsibility
Group Financial Controller	<ul style="list-style-type: none"> Overall accountability for the CAM and compliance with the Guidelines Implement the CAM and maintain associated costing procedures and guidelines for staff.
Group Finance Team	<ul style="list-style-type: none"> Update and maintain the CAM as required.
Regulated Finance Team	<ul style="list-style-type: none"> Apply the CAM in the preparation of all regulatory financial information, including reporting of actual results and development of forecasts Recognise and report financial information in accordance with the CAM Provide advice, education & support to staff in regard to the requirements of the CAM Ensure adherence to the CAM.
All finance and accounting teams	<ul style="list-style-type: none"> Recognise and report financial information in accordance with accounting and cost allocation policies.
Manager Regulation, Electricity Distribution	<ul style="list-style-type: none"> Provide advice on design, implementation and ongoing compliance obligations for the CAM Monitor and advise the Regulated Finance Team of relevant changes to the NER, Cost Allocation Guideline or any other regulatory developments that may impact on the CAM Apply the CAM in the preparation of regulatory forecast information.
Operational Managers	<ul style="list-style-type: none"> Comply with the CAM and support its application within relevant area of responsibility.
All Staff	<ul style="list-style-type: none"> Comply with all relevant costing procedures and guidelines issued by Group Finance to ensure that AusNet complies with the approved CAM.

While significant responsibility lies with the Regulated Finance team for the application of the CAM, all AusNet 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.

2.3. Compliance Monitoring

Associated with the preparation of annual regulatory financial information, AusNet engages external auditors to audit the statutory financial statements, internal controls, and RIO, derived from the application of the CAM.

AusNet further monitors compliance with the CAM and the AER's Guidelines through the following:

- In processing and approving costing entries, Finance staff review the coding of costs;
- Monthly preparation and review of the financial results on a full cost allocation basis for each regulated network, as well as the unregulated businesses of AusNet;
- The annual review of templates, documentation and work papers by the Regulated Finance and Strategy & Regulation teams during the preparation of the RIO;
- Quarterly calculation, review and true up of cost allocations by the Finance team;
- Cost allocation models are subject to external audit during the preparation and audit of the annual RIO and Ring Fencing submissions;
- The subsidiary board approves the RIOs in line with the CAM. Related party transactions are subject to review by Finance staff, scrutiny from internal and external auditors and sign-off by the Directors within regulatory submissions to ensure adherence to approved arrangements and compliance with regulatory obligations in regard to the charging of actual costs only to regulated distribution services;
- The Directors will make such enquiries as may be necessary to allow them to sign the Statutory Declaration 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.

AusNet ensures consistency and the integrity of the shared cost allocation process and outcomes by:

- The Regulated Finance Team reviews compliance with the process including undertaking quarterly internal reviews of cost allocations and cost drivers, ensuring cost drivers remain relevant and provide updated driver inputs to the Group Finance team;
- Ensuring cost allocations are subject to external audit review for the Elec. Distribution Regulatory Accounts, as well as for the Elec. Distribution Ring Fencing submissions;
- Ensuring signed Management Representations including representations relating to cost allocations are provided (on an annual basis);
- Requiring Directors' approval of the RIO; and
- Ensuring regulatory cost allocation outcomes are transparently reflected in regulatory accounts submitted to the AER.

2.4. Records Maintenance

Accounting Records & Working Papers

AusNet records its costs in accordance with all applicable accounting standards and the Corporations Act 2001. All submissions are prepared in accordance with the necessary accounting, legislative and regulatory standards and guidelines and audit opinions report on compliance. Detailed cost reports (general ledger, trial balance, project based, and allocation based) are generated from the integrated financial and asset management system and supporting analytical spreadsheet packages.

Records and work papers include:

- source invoices, vouchers, management costing surveys, general ledger reports, trial balances, transaction listings; and
- the cost allocation model, allocators and working papers - supporting the attribution or allocation of costs to, or between, categories of distribution services.

Audit or Verification by Third Party

As part of AusNet's external audit of the regulatory accounts, all supporting workpapers and reports are made available to the audit teams. Working papers provided include supporting calculations (where appropriate) and cost allocation models are cross checked to assure the veracity of the information supplied.

AusNet's cost allocation models are subject to independent audit review during the preparation and audit of the annual RIO.

Record retention

In accordance with clause 3.2(a) (7) of the Guidelines, AusNet will maintain the above mentioned records in order to demonstrate compliance with the guideline and to facilitate audit or other verification as required. AusNet will maintain the source financial records within its integrated financial and asset management systems.

2.5. Commencement Date, Version History and Publication

Commencement date

Subject to AER approval, the CAM is effective from 1 July 2026. The currently approved CAM was applied in the development of AusNet's building block proposal for the 2026-2031 regulatory period. As previously noted, the cost allocation methods set out in the currently approved CAM and this revised CAM are consistent. The CAM will remain in place until it is amended or replaced.

The process for amending an approved CAM is set out in the NER and the Guidelines. AusNet will ensure any amendments to the CAM are undertaken in accordance with those processes.

Version history and date of issue

In accordance with the Guidelines, the version control table (located on the second page) outlines the version number, effective date and details of amendments to the CAM.

Availability

In accordance with the requirements of clause 6.15.4(h) of the NER, AusNet will maintain a current copy of the approved Cost Allocation Method on its website www.ausnetservices.com.au.

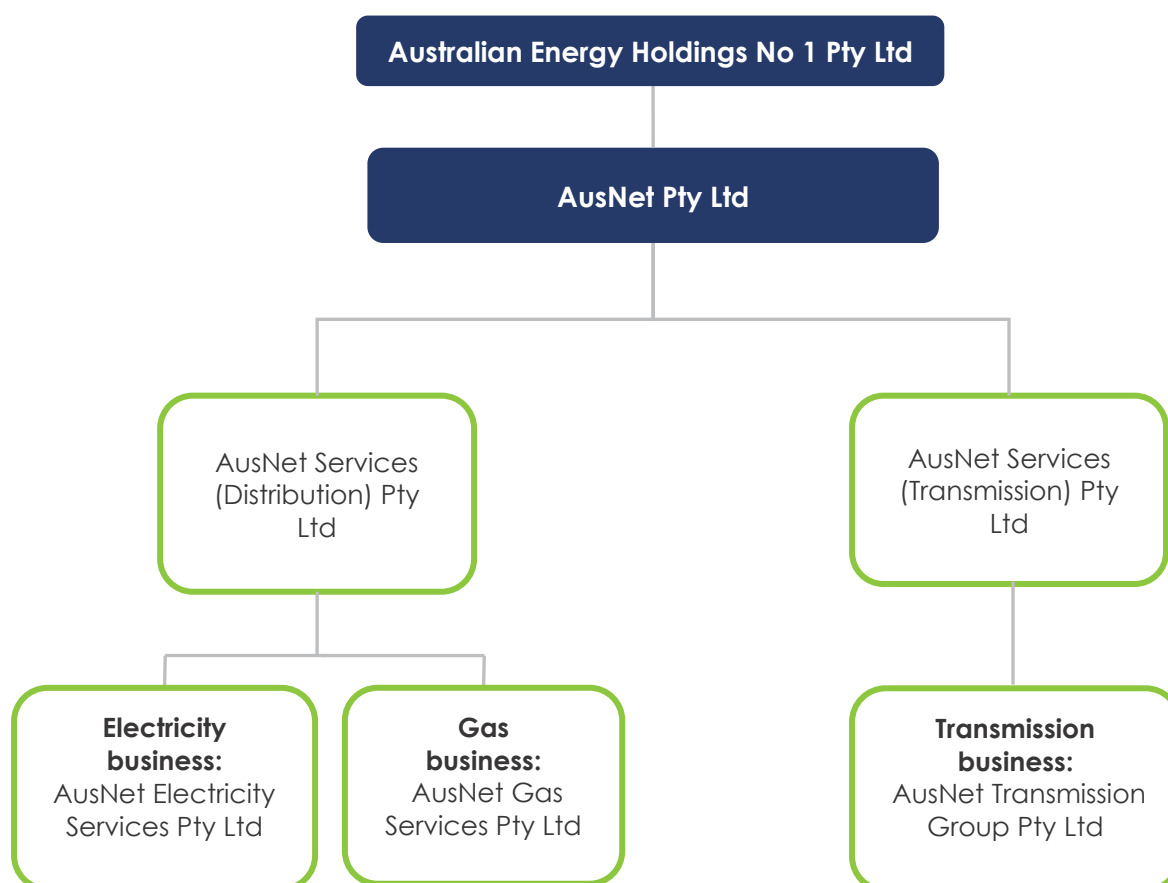
3. AusNet's Electricity Distribution Services

3.1. Corporate Structure

AusNet is Victoria's largest energy transmission and distribution company, delivering electricity and gas to more than 1.6 million business and residential customers across the state. AusNet's network assets include Victoria's electricity transmission network, an electricity distribution network in the state's east, and a gas distribution network in Victoria's west.

AusNet is a privately owned company. The AusNet Group was fully acquired by a consortium of investors principally led by Brookfield Asset Management Inc. on 16 February 2022. The ultimate Australian parent entity of AusNet is Australian Energy Holdings No.1 Pty Ltd. AusNet's current structure provides clear separation between Transmission and Distribution (electricity and gas) assets. This separation is required for a number of reasons including market, funding and regulatory requirements. AusNet's corporate structure is shown in Figure 1 below.

Figure 1: AusNet's corporate structure



3.2. Operational Structure

AusNet's integrated operational structure supports the delivery of our corporate strategy, providing strong focus on continually improving outcomes and performance of our regulated network assets for all customers and stakeholders, while pursuing business growth in new unregulated areas.

In September 2024, AusNet changed its Operational structure into lines of business, providing the efficient delivery of asset management, construction, maintenance and customer services to each of the group's regulated network businesses and external customers, as well as effectively managing the unique strategic challenges and opportunities within the following lines of business.

- Electricity Distribution
 - Includes: Strategy & Regulation; Network Management; Network Operations & Delivery; Customer & Community and Works Management
 - Responsible for the stewardship and setting the strategic direction of AusNet's Electricity Distribution network and the delivery of all regulated, network asset related works and field services, including customer projects.
- Electricity Transmission:
 - Includes: Strategy & Regulation; Network Management; Field Operations & Maintenance; Security & Network Operations and Project Delivery
 - Responsible for the stewardship and setting the strategic direction of AusNet's Electricity Transmission network and the delivery of all regulated, network asset related works and field services, including customer projects.
- Gas Distribution & Metering
 - Includes: Strategy & Regulation; Network Management; Network Operations & Delivery; Metering and Works Management
 - Responsible for the stewardship and setting the strategic direction of AusNet's Gas Distribution network and the delivery of all regulated, network asset related works and field services, including customer projects and metering services.
- Development & Future Networks (DFN):
 - Delivers some asset services to AusNet's regulated networks and other (contestable) services to external customers, with appropriate consideration of ring-fencing obligations. Services include building, owning and operating contracted infrastructure, associated with renewables and HV voltage assets.
- Corporate Groups:
 - Responsible for providing the full range of support services required by the operational divisions and other internal and external stakeholders.
 - Includes: Office of the Chief Executive Officer (CEO); Digital; Finance, Strategy & Legal; Group Operations; People & Safety; and Compliance, Risk & Corporate Affairs.

3.3. Categories of Electricity Distribution Services

Clause 3.2(a)(5) of the AER's Guidelines requires AusNet to specify the categories of distribution services that it provides, to which costs are to be attributed or allocated, and the types of persons to whom those services are provided.

In accordance with this requirement the distribution services that AusNet provides are set out below:

- **Standard Control Services** - Generally, these services are necessary to electricity supply and cannot be separately supplied to an individual customer. Examples include planning, design and construction of the distribution network and maintenance and operation of the distribution network. These services are provided to every customer connected to the electricity distribution network.
- **Alternative Control Services** Generally, these are services that are customer specific or requested by a specific customer. Examples include metering services, auxiliary meter services and operation and maintenance of AusNet's public lighting assets. These services may be provided any customer seeking non-standard services.
- **Unregulated Services** – Generally these services are distribution services but are not regulated by the AER. This classification also includes services offered in accordance with the AER's Shared Asset Guideline. These services are only provided where a Ring-Fencing waiver has been obtained from the AER.

4. Cost Allocation Principles and Policies

The following principles underpin the AusNet cost allocation methodology and are used to attribute costs to, or allocate costs between, categories of distribution services:

- costs are directly attributed to, or allocated between, categories of distribution services based on the substance of the underlying transaction or event rather than its legal form;
- only costs that are directly attributable to the provision of a particular category of distribution services will be attributed to that category of services;
- shared costs incurred in providing several categories of distribution services will be allocated between these categories using a causal allocator, except to the extent that the cost is immaterial or a causal relationship cannot be established, in which case a non-causal allocator will be used, subject to AER approval;
- an avoided cost approach will not be used to allocate shared costs;
- costs will not be allocated more than once (i.e. double-counted) and the same cost will not be recovered more than once through the charges levied for all distribution services;
- the principles, policies and approach used to attribute costs directly to, or to allocate costs between categories of distribution services will comply with the AER's Ring-fencing Guideline Version 4 – February 2025;
- costs that have been attributed or allocated to categories of distribution services will not be reattributed or reallocated to another category of distribution services during the course of a regulatory control period; and
- the proposed cost allocation method provides outcomes that are materially consistent with AusNet's previous cost allocation principles, policies and methodology allowing for comparison to historical periods.

4.1. Costing Overview

AusNet utilise SAP as the enterprise resource planning (**ERP**) system. Costing entries include details of cost centre, account and project number. The general ledger is structured on a responsibility basis, identifying the spending cost centre and cost account. General ledger reporting gives a view of total cost 'inputs' and supports internal budget accountability reporting and statutory reporting.

The cost inputs on individual projects, jobs or work programs are summarised up (mapped) to work codes, reflecting categories of capital, operating and maintenance activities and services. Activity reporting provides a view of cost 'outputs/outcomes' and supports regulatory reporting, benchmarking and pricing requirements.

4.2. Summary of Cost Types

The following categories represent the key types of operating costs for AusNet:

- Labour costs – are either directly costed / attributed to asset related work codes and activities (maintenance and capital expenditure) via job orders and projects in the asset management system and labour timesheets, or allocated (for shared support services) using a cost driver approach (causal basis);
- Materials costs and invoiced contract and services costs (third parties) – through direct costing / attribution to asset related work codes and activities via the ERP system, or allocated using a cost driver approach, referencing the causal drivers of the cost in the case of shared costs; and
- Directly costed items – through system-based attribution (direct attribution) due to the specific nature of the cost (e.g. property taxes, licence fees, network charges).

5. Detailed Principles & Policies for Attributing & Allocating Costs

AusNet allocates costs directly to projects, assets and services where possible and appropriate. Where costs are shared, cost drivers are employed to allocate costs across projects, assets and services, to satisfy the needs of internal management reporting, statutory reporting and regulatory information requirements.

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

- 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 allocations will be automated wherever possible;
- cost allocation methodology and controls will be subject to regular internal and independent review; and
- cost allocation methodology must maintain consistency between reporting periods.

5.1. Direct Cost Attribution

Wherever possible, costs are directly attributed to assets and distribution service categories where the cost is directly related to the management (i.e. operation, maintenance, construction) of the asset or the delivery of the service. In other words, where there is a clear 'line of sight' between the costs incurred and the particular assets and/or service, costs are directly attributed to those assets and/or service categories.

The following processes are used to support AusNet's direct cost allocation:

1. Project Costing

Labour Timesheets

- AusNet employs an online timesheet facility to track and charge hours worked to specific projects and activities (capital or operating) and in turn, to service categories. It is compulsory for all staff, below General Manager level, to timesheet their hours worked. In addition, staff working on specific projects must complete timesheets for each pay cycle, which captures work hours and charge these projects on the basis of a standard charge rate.

Materials, Contractor and Third Party Costs

- Materials, contractor costs and other accounts payable transactions can be directly mapped to specific projects and activities at the source transaction.

Manual Project Journals (cost transfers)

- Manual Project Journals are 'exception based' cost adjustments used where an employee (or specific expense such as external consultancy) is assigned to, or engaged on, a specific project for short periods. In cases where project related hours (of a material level) are identified in non-timesheet areas, this time may be recorded and journalled directly to the specific project from the payroll costing default codes.

2. Direct Attribution

Accounts

- Certain general ledger accounts are directly mapped or directly costed via accounts payable to networks and service classifications.

Functional Areas (cost centres)

- Certain functional areas are directly mapped (via cost assessment) to networks/businesses and service classifications. Examples include the Works Management cost centres which are directly assessed to Electricity standard control and the Meter Reading cost centre which is directly assessed to Electricity Alternative Control opex. Where the costs of a particular function area cannot be directly attributed to a service category, they are included in the shared cost pool.

5.1.1. Project Costing

The following table provides a summary of the cost items that AusNet directly attributes to distribution services via project costing, including the process and basis for that attribution:

Cost Items subject to Project Costing				
Cost Types	Description	Basis of Attribution / Cost Driver	Service/s Attributed to	Method changed from previous periods?
Labour	Includes the following: Normal and overtime salaries and wages, associated payroll on-costs and employee allowances	Standard rates (specific to job type) directly attributed by employee timesheets, to jobs/work orders.	Standard Control Alternative Control Unregulated	No
Materials	Includes inventory and non-inventory (irregular) items	Directly attributed to jobs/work orders at either average cost (for items in inventory) or based on the purchase order mapped to the particular project.	Standard Control Alternative Control Unregulated	No
Contractor, Third Party and Other Costs	Includes costs associated with the provision of services by external parties	Directly attributed to jobs/work orders, or directly attributed by General Ledger account mapping, or directly attributable via purchase order/invoice.	Standard Control Alternative Control Unregulated	No

To support the attribution and allocation of costs, AusNet uses a project hierarchy and structure that initially 'parents' work orders and projects to defined capital, operating and maintenance activities (or 'work codes'). In turn, work codes are linked to service classifications.

The financial system and works management system have been developed to assist project managers and asset service teams to track and report detailed project cost or activity information, based on the use of work orders, project numbers and work codes.

The following list of Operating & Maintenance work code descriptions are presently used to attribute costs directly to categories of distribution services:

Work Code Description	Service Classification
Network Maintenance: Preventative Maintenance, Corrective Maintenance, Emergency Maintenance, Inspection, Vegetation Management, System Control, Despatch Services and Safety, Environmental, Legal, Security & Compliance	Standard Control
Non-network: Information Technology, Demand Management Initiative, Other Non-Network	Standard Control
Meter Reading, Metering, Special Meter Reading	Alternative Control
Public Lighting, Fee Based Services, Quoted Services	Alternative Control
Other Opex	Standard Control
Unregulated Works	Non-Regulated

5.1.2. Direct Account Attribution

The following table provides a summary of the cost items that AusNet directly attributes to distribution services, including the process and basis for that attribution:

Specific Cost Items subject to Direct Attribution				
Cost Types	Description	Basis of Attribution / Cost Driver	Service/s Attributed to in the Electricity business	Method changed from previous periods?
Network Operating	Residual costs of Asset Management Network Operations and Delivery, including payroll, training, travel, etc.	GL Accounts directly attributed.	Standard Control	No
Guaranteed Service Level Payments	Regulated obligation for customer service levels	GL Account directly attributed.	Standard Control	No
Distribution Licence Fees	Regulatory Obligation	Directly attributed to the regulated network to which the licence relates..	Standard Control	No
TUoS Fees	Transmission network connection and use of system	GL Accounts directly attributed.	Standard Control	No
Network Support Payments & Cross Boundary Charges	Required regulated costs	GL Account directly attributed.	Standard Control	No
ESV Levy & Ombudsman levies	Payments to the ombudsman and Energy Safe Victoria	Directly attributed to the regulated network to which the levy relates...	Standard Control	No
Land Tax	Impost associated with land holdings for AusNet's network	Directly attributed to regulated network to which the site/property relates.	Standard Control	No
Claims/ settlements and surge payments	Domestic power surge claims, other claims and settlements due to third parties	GL Account directly attributed.	Standard Control	No
Environmental Service Costs	Site remediation, asbestos meter board removal/disposal, oil containment, etc.	Directly attributed to the regulated network to which the site/property relates.	Standard Control	No

Site Security Costs	Costs associated with security at AusNet's stations/sites	Directly attributed to the regulated network to which the site/property relates.	Standard Control	No
Property & Liability insurance premiums	Property & Liability insurance premiums (including bushfire liability) applicable to AusNet's Electricity Distribution network	Directly attributed to the regulated network to which the insured site/property / asset relates. Note – premiums are negotiated and charged to each of the businesses. The premiums incurred by the Electricity Distribution business are only attributable to standard control services.	Standard Control	No
Various recurrent transactions	FBT costs, Audit Fees, Bank Fees, Legal expenses and Bad Debt Expense where costs are directly attributable to a network	<p>Directly attributed to the regulated network to which the costs relate. E.g.</p> <ul style="list-style-type: none"> - FBT based on cost weighted by employees - Bank fees based on the network/business holding the bank account - Audit fees based on the network/business being audited - Legal expenses based on the related network/business - Bad debt expense based on the nature of the unrecovered cost. 	Standard Control	No

5.2. Shared or Allocated Costs

Shared or allocated costs are the remaining costs not directly attributed to service classifications (via the methods discussed above). These costs are initially pooled against cost centres (relating to functional areas) and then allocated between the relevant AusNet businesses and service classifications as follows:

- Project-related expenditure that is not possible to directly project cost (e.g. motor vehicle operating costs) are allocated to service categories by the Regulated Finance team using an appropriate cost driver, such as labour hours; and
- All other shared or allocated costs, including general labour, administrative and overhead costs, are subject to allocation via an identified cost driver for the relevant functional cost centre.

5.2.1. Determination and Application of Cost Drivers

Causal cost drivers are applied to allocate any remaining shared, unallocated costs. Cost drivers have been identified for each cost centre based on the nature of the activities performed by the cost centre. Where multiple cost drivers exist, a weighted average of the drivers is applied.

The Finance team calculates cost driver allocations/percentages on a quarterly basis. A true up process is also performed to ensure that allocations reflect the most accurate information as possible. It should be noted that although the allocation percentages may change each quarter, the cost drivers do not change.

Cost drivers provide allocations to:

- Businesses (Electricity Transmission, Electricity Distribution, Gas Distribution, DFN Transmission and DFN Mondo);
- Activity expenditure types (operating and capital expenditure); and
- Service classifications.

It is noted that shared costs are allocated to standard control services (in the regulated Electricity business), haulage services (in the regulated Gas business), prescribed transmission services and unregulated services (in the Transmission business) and to Mondo (the non-regulated legal entity). Refer to 5.2.3 for discussion in relation to Electricity alternative control services.

To determine cost drivers, a cascade of three approaches is applied:

1. **Timesheeting:** For cost centres that complete timesheets and where those timesheets cover the majority of the cost centre's available time, the cost driver applied to any remaining, unallocated costs is the timesheeting splits of the cost centre.
2. **Financial or Non-Financial Metrics:** For cost centres where the unallocated costs relate to business support activities that are driven by or closely associated with a financial or non-financial metric (e.g. EBITDA, Revenue, RAB value, Capex Program expenditure, Works Program expenditure, specific projects, Customer Numbers, etc.), the cost driver is the relevant financial or non-financial metric/s.
3. **Average of Other Cost Centres' Allocations:** For Executive Management cost centres, cost drivers are based on the average cost allocations of the cost centres within their reporting hierarchy. For the CEO cost centre, company-wide revenue is the cost driver applied.

The cost driver process enables:

- Shared cost expenditure to be split to meet the requirements of regulatory reporting, shareholder and management reporting, statutory segment reporting and impairment testing; and
- The derivation of rates for capitalising reasonable business overheads to new constructed assets in accordance with accounting standards and internal policies.

5.2.2. Cost Items Subject to Cost Driver Allocation

The following table presents a high-level breakdown of the cost centres that are subject to cost driver allocation, the basis for the allocation and the distribution service categories to which the costs are allocated:

Cost Centre Subject to Allocation	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?
Finance, Strategy & Legal					
Group Finance, Regulated Finance	Statutory reporting, regulatory reporting, business partnering, accounting policy, asset accounting, accounting services, revenue management, accounts payable and financial management of the regulated businesses.	Costs allocated based on Revenue and Asset value splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Corporate Finance	Includes financial planning, corporate reporting and financial data analytics.	Costs allocated based on Revenue and Asset value splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Taxation, Legal and Company Secretary	Tax, legal and Company Secretary	Costs allocated based on Revenue splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No

Cost Centre Subject to Allocation	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?
Strategy and Sustainability	Corporate strategy and sustainability.	Costs allocated based on Revenue splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Treasury	Responsible for Treasury Operations, including debt refinancing and management of financial risk as well as insurance management	Costs allocated based on insurance splits, asset values and debt splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Compliance, Risk & Corporate Affairs					
Risk and Internal Audit	Risk Management, Internal Audit and Compliance	Costs allocated based on split of organisational EBITDA.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Corporate Affairs, Public Affairs	Brand, corporate affairs and communications, public affairs and communications	Costs allocated based on split of organisational revenue, EBITDA and operational expenditure.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No

Cost Centre Subject to Allocation	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?
People & Safety					
Health, Safety, Environment and Quality	Safety compliance and training	Costs allocated to the Non-Regulated business based on dedicated headcount. Residual allocation based on the works program splits of the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
People	Workplace relations, remuneration and benefits, people and change	Costs allocated based on the organisational Revenue splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Building Services	Building management activities	Costs allocated based on organisational operating and capital expenditure.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Fleet	Fleet management activities	Costs allocated based on the organisational capital expenditure.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No

Cost Centre Subject to Allocation	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?
Group Operations					
Property Services	Property management activities	Costs allocated based on Revenue and Asset value splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Engineering and Asset Management, Portfolio Management Office	Network engineering activities, asset management, portfolio planning, capital governance	Costs allocated based on organisational capital expenditure	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Procurement	Responsible for procurement activities, strategic sourcing and Operational Procurement	Costs allocated based on the split of expenditure requiring procurement services.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No
Regulated Distribution					
EGM – Distribution	Office of the EGM - Distribution	Costs allocated based on the average of all Distribution cost centres.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Yes ¹

¹ As AusNet changed from a functional to a line of business operating model, this is a newly created cost centre, which holds the Electricity Distribution Snr Management's costs.

Cost Centre Subject to Allocation	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?
Customer & Community	Customer experience and engagement	Costs allocated based on timesheet splits and customer numbers across the regulated businesses. Costs are allocated to Alternative control where there is a direct line of sight only. See 5.2.3 below.	Standard Control	Electricity Distribution Gas Distribution	No
Network Connections	Energy connections, connection management and customer works.	Cost allocated based on timesheet splits and energy connection activities.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	No
Delivery	Major Projects (Capital Delivery), Maintenance Delivery & Vegetation Management	For most cost centres, costs are allocated based on timesheet splits. For contractor cost centres (e.g. Downer) costs are allocated based on contractor project splits. Management cost centres are allocated based on the works program and capital expenditure splits of the regulated businesses.	Standard Control	Electricity Distribution Electricity Transmission	No
Electricity Transmission					
Technical services	Energy metering projects & compliance, HV testing and Non-invasive testing.	Costs allocated based on timesheet splits.	Standard Control	Electricity Distribution Electricity Transmission Non-Regulated Business	No

Cost Centre Subject to Allocation	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?
Delivery	Major Projects (Capital Delivery) and Maintenance Delivery.	Costs are allocated based on contractor project splits.	Standard Control	Electricity Distribution Electricity Transmission Non-Regulated Business	No
Network Management	Asset management and engineering activities	Costs allocated based on timesheet splits.	Standard Control	Electricity Distribution Electricity Transmission Non-Regulated Business	No
Gas Distribution & Metering					
Regulated Metering	Metering and data services	Costs allocated based on Electricity Distribution capital and operating expenditure splits. Functional areas dedicated to alternative control services are directly allocated.	Standard & Alternate Control	Electricity Distribution Gas Distribution Electricity Transmission	No
Strategy & Regulation	Metering strategy and economic regulation	Costs allocated based on timesheet splits.	Standard & Alternate Control	Electricity Distribution Gas Distribution Non-Regulated Business	No
Digital					
Digital	Strategy & architecture, operation support, data enablement, security & innovation	Costs allocated based on the split of IT direct project expenditure.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No

Cost Centre Subject to Allocation	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?
Other					
Office of the Chief Executive Officer	Costs for the office of the CEO	Costs allocated based on Revenue splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	No

5.2.3. Incremental Costing approach for Alternative Control Services

AusNet's shared costs are allocated between operating activities and capital work projects, applying an overhead capitalisation process to capitalise reasonable overhead costs directly incurred in the purchase or construction of new network assets (refer section 5.3 for further details).

AusNet does not allocate shared operating costs to Alternative Control operating services but instead applies an incremental costing approach which attributes costs only where there is a 'direct line of sight' to the Alternative Control service performed.

'Incremental costs' are the additional costs that AusNet will incur as a result of expanding the output of a service defined as an Alternative Control service.

Whilst the costs that are considered incremental can theoretically vary greatly depending on the size of the increment, for the purposes of cost allocation Alternative Control services will capture only:

- The labour, and associated on-costs, of providing those services;
- Direct contractor costs associated with undertaking such work; and
- Any materials (e.g. fuel) that directly relate to the volume of services provided.

5.3. Overhead Capitalisation

AusNet employs a systematic approach to calculate and capitalise reasonable overhead costs in the construction of new network assets. In accordance with internal accounting policies, the overhead capitalisation process references the cost driver approach. This ensures that appropriate overhead costs are reflected within reported capital expenditures.

A network-specific overhead rate is applied to all direct capital expenditure for that network (i.e. transmission, electricity distribution or gas) which means that the application of capitalised overheads to capital projects, and distribution service categories, is in direct proportion to the direct capital expenditure incurred against the project, or service category.

The overhead cost pool subject to capitalisation reflects the residual 'shared' costs remaining within each cost centre, after the direct attribution of all project-costed labour and non-labour expenditure. Where the cost driver for the cost centre allocates a percentage of cost for the period to support capital work, then that percentage of the cost centre's residual overhead cost pool is transferred to 'capitalised overheads' and ultimately allocated to qualifying capital works projects within Assets-Under-Construction (via the overhead capitalisation rate).

The capitalisation of overheads is in accordance with accounting standards; therefore, not all costs are eligible for capitalisation. Certain cost categories are excluded from being capitalised and as such remain as opex which are allocated to each network based on cost driver allocations.