COST ALLOCATION METHOD

Version 6.3

As Submitted to the AER

CONTACT

This document is the responsibility of the Commercial Management Group of Network Division, Aurora Energy Pty Ltd, ABN 85 082 464 622. Please contact Aurora's Group Manager – Commercial Management with any queries or suggestions.

REVIEW DATE

This document is due for review not later than 30 June 2015

RESPONSIBILITIES

Implementation

All Network staff and contractors.

Audit

Periodic audits to establish conformance with this document will be conducted by Aurora's Commercial Management Group.

Compliance

All Group Managers

Document Management

Commercial Management – Commercial Team

MINIMUM REQUIREMENTS

The requirements set out in Aurora's documents are minimum requirements that must be complied with by Aurora staff and contractors, including designers and other consultants. The user is expected to implement any practices which may not be stated but which can reasonably be regarded as good practices relevant to the objective of this document without non-compliance with the specific requirement of this document. Aurora expects the users to improve upon these minimum requirements where possible and to integrate these improvements into their procedures and quality assurance plans.

AURORA ENERGY PTY LTD

Cost Allocation Method

Version History

Version No	Date of Revision	Authorised By	Details of Amendment
1.0	September 2008	Network Regulation Manager	Initial Version
1.1A-K	October - November 2008	Network Finance Manager	First Draft
1.1L	December 2008	Network Regulation Manager	Second Draft
1.2	December 2008	Group Manager – Commercial Management	Final Version
1.2	December 2008	Group Financial Controller	Final Version
1.2	December 2008	GM - Network	Final Version
1.2	December 2008	CEO	Submitted Version
2.0	March 2009	Network Finance Manager	1st Revision
3.0	May 2009	Network Finance Manager	2nd Revision
4.0	May 2009	Network Finance Manager	2nd Revision as Submitted to AER
5.0	March 2011	Manager Management Accounting	Amendments subsequent to AER Framework and Approach paper and Regulatory Information Notice
6.0	April 2011	Commercial Manager Network	Amendment subsequent to AER discussion re amended CAM version 5.0
6.1	April 2011	Commercial Manager Network	Amendment subsequent to AER discussion re amended CAM version 5.0
6.2	May 2011	Commercial Manager	Amendment subsequent to AER request 12 May
6.3	May 2011	Commercial Manager	Amendment subsequent to AER request 13 May

Amendments to each version of this document will be tracked through Aurora's document management system.

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1. Background

Aurora Energy Pty Ltd (Aurora) is a Tasmanian state-owned energy corporation, licensed under the *Electricity Supply Industry Act 1995 (Tas)* (ESI Act) as a provider of electricity distribution and retail services to over 260,000 customers across an area of 68,400 square kilometres on mainland Tasmania. Since May 2005, Aurora has participated in the National Energy Market (NEM) and is, accordingly, registered with the Australian Energy Market Operator (AEMO) as a Distribution Network Service Provider (DNSP), a Metering Provider (MP), a Local System Operator (LSO) and an electricity retailer (Retailer).

Whilst Aurora is essentially a distribution and energy business, it is structured into a number of separate divisions that allows for the control of organisational resources and processes. The major divisions are grouped by the services provided and comprise the following:

<u>Office of the CEO</u>

The office of the CEO provides the central management and administrative support for the CEO and the Aurora Board of Directors.

<u>Corporate and Shared Services:</u>

Commercial Services

Responsible for the organisation's financial and procurement strategies, financial discipline and cash flow management and financial reporting to key stakeholders. Commercial Services operates under a shared services model providing services to both regulated and unregulated activities within the Divisions.

Strategy & Corporate Affairs

Responsible for the organisation's positioning from a business strategy and development perspective, market monitoring and policy development and public affairs and external relationships.

People & Culture

Responsible for ensuring a healthy and safe environment for the organisation's people and for developing, attracting and retaining high quality staff.

Governance

Responsible for the provision of legal services, company secretariat, compliance, business risk and information services management. The GM Governance is also the Company Secretary and General Counsel.

<u>Energy Business:</u>

Retail

Responsible for developing, marketing and selling retail products that meet customer needs and maximise the value of the organisation's customer base.

Wholesale Energy

Responsible for developing and implementing Aurora's wholesale energy strategy, including managing energy trading operations.

Telecommunications Business

The Telecommunications Business is responsible for the wholesale service for optical fibre links.

Distribution Business:

Network

Responsible for planning, operating and monitoring the distribution network, including the delivery of its capital program to ensure the capacity, sustained integrity and long-term value, market services (including meter services) data management and regulatory and financial management of regulated and unregulated distribution services.

Network Services

Responsible for distribution design, construction and maintenance of the distribution network assets to ensure a safe and reliable network and customer connections and meter reading. Network Services also provides services to the Tasmanian transmission company, Transend, and other external customers.

Aurora also has three wholly owned subsidiaries:

Aurora Energy (Tamar Valley) Pty Ltd trading as “AETV Power”

AETV Power provides the generation aspect of the business via the Tamar Valley Power Station (TVPS), which was completed in September 2009.

Ezikey Pty Ltd

Ezikey Pty Ltd, trading as “WireAlert”, is the vehicle that is utilised to commercialise Aurora’s intellectual property, currently the broken neutral device.

Auoracom Pty Ltd

Auoracom Pty Ltd is the corporate structure which holds the telecommunications licence under the Telecommunications Act 1997.

1.1. Date of Commencement

Clause 6.15.4 of the National Electricity Rules (NER) requires Aurora to submit its proposed Cost Allocation Method (CAM) to the Australian Energy Regulator (AER) for its approval. The CAM must be provided within 12 months after the commencement of the NER and must give effect to, and be consistent with, the AER’s Cost Allocation Guidelines (Guidelines).

Clause 3.2(a)(9) of the Guidelines requires that this CAM include a commencement date. To this end, Aurora confirms that this CAM will be in effect from the date it is approved by the AER, and will be used by Aurora for the purposes of allocating and attributing costs to services for all Regulatory Control Periods commencing after 1 July 2012.

2. Purpose

For the purposes of clause 3.2(a)(2) of the Guidelines, Aurora confirms that the purpose of this document is to establish a method for attributing or allocating costs to, or within, direct control, negotiated and non-regulated distribution services and other non–regulated activities undertaken by Aurora, in its capacity as a Distribution Network Service Provider (DNSP).

3. Scope and Application

For the purposes of clause 3.2(a)(2) of the Guidelines, Aurora confirms that this CAM applies to the allocation of all Aurora costs relevant to its role as a DNSP, and has been prepared in accordance with the requirements of the NER and the Guidelines.

In accordance with the requirements of clauses 5.1(b)(1) and (2) of the Guidelines, this CAM will be used by Aurora for the preparation of:

- capital (capex) and operating (opex) expenditure forecasts included in Aurora's Regulatory Proposal;
- prices for any negotiated distribution services; and
- annual statements to be submitted to the AER in accordance with any regulatory information instrument issued by the AER;

that apply from 1 July 2012.

4. Accountabilities and Responsibilities

4.1. Accountabilities

For the purposes of clause 3.2(a)(3)A of the Guidelines, Aurora confirms that this CAM is, in the first instance, approved by the Aurora's CEO, and then submitted to the AER for approval. Aurora's CEO and the AER must also approve subsequent amendments to the CAM.

4.2. Responsibilities

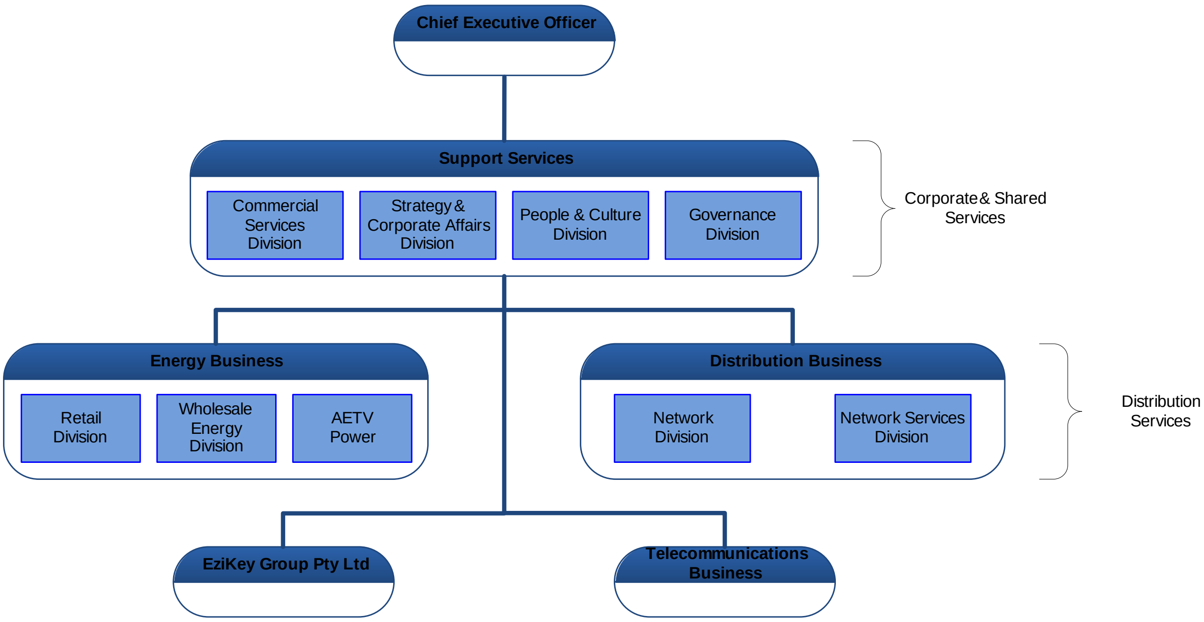
For the purposes of clause 3.2(a)(3)B of the Guidelines, Aurora confirms that the General Manager – Network is delegated responsibility for the update, maintenance, application and monitoring of compliance with the CAM . This includes reporting to the CEO annually on its application as part of the regulatory reporting process.

The Management Accounting Manager has the responsibility for ensuring the preparation and maintenance of the CAM. As this position is responsible for the preparation of the annual Regulatory Accounts together with internal reporting on Regulatory outcomes, it is therefore most appropriate both to report on, and ensure compliance with the CAM throughout the organisation. The Management Accountant Manager works in close collaboration with other groups in Aurora to achieve this.

4.3. Aurora's Organisational Structure

For the purposes of clause 3.2(a)(4) of the Guidelines, the figure below illustrates Aurora's organisational structure.

Figure 1 – Aurora's Organisational Structure



For clarity, costs associated with the Energy Business, the Telecommunications Business, and EziKey are not allocated to Distribution Services.

4.4. Amendments to this CAM

This CAM will only be amended in accordance with clause 4.2 of the Guidelines and clause 6.15.4(f) of the NER.

Aurora notes that clause 4.3 of the Guidelines provides that the AER, in consultation with Aurora, will review this CAM as part of its revenue determinations from 1 July 2012. This CAM supersedes the CAM approved by the AER in June 2009 with the amendments a result of internal and external drivers that have occurred subsequent to this date. Specifically changes to the previous CAM were required as a result of four key issues, being:

- the classification of Aurora's services changed on the basis of the AER's likely approach set out in its Framework and Approach paper released 29 November 2010;
- in its Framework and Approach paper the AER determined that Aurora would provide Negotiated Distribution Services, which were not contemplated in the previous CAM;
- the methodology for allocating shared costs of the Corporate and Shared Services groups was revised at the organisation-wide level; and
- the expenditure categories previously used by Aurora were required to be amended as specified by the AER in its Regulatory Information Notice issued on 21 April 2011.

Aurora undertakes to approach and inform the AER in the event of any material changes that should occur, either quantitative or qualitative during the period in which the approved CAM applies. A change in circumstances will be deemed material if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position of Aurora, gained by an assessment of financial information relating to Aurora.

5. Categories of Distribution Services

Clause 3.2(a)(5) of the Guidelines requires Aurora to specify the categories of distribution services that it provides and to which costs are to be attributed or allocated. Consistent with the likely approach set out by the AER in its Framework and Approach Paper[1], Aurora categorises its distribution services as follows:

Table 1 - Service Classification Summary

Service Category	Service Classification
Standard Network Services	Standard Control Services
Type 5-7 Metering Services	Alternative Control Services
Type 1-4 Metering Services	Unregulated Services
PAYG Metering Services	Unregulated Services
Non-Standard Metering Services	Alternative Control Services
Public Lighting Services	Alternative Control Services
New Public Lighting Technology	Negotiated Distribution Services
Standard Connection Services	Standard Control Services
Connections requiring augmentation	Standard Control services
Capital contributions component of connections requiring augmentation	Unregulated Services
Fee Based Services	Alternative Control Services
Quoted Services	Alternative Control Services
Alteration and relocation of public lighting assets	Alternative Control services

For the purposes of clause 3.2(a)(5) of the Guidelines, Aurora confirms that it provides its distribution services to the following:

- Tasmanian Retail licence holders,
- all Distribution connected customers, and
- all Distribution connected generators.

[1] AER, Final Framework and approach paper Aurora Energy Pty Ltd, p.61

6. Cost Allocation Principles and Policies

6.1. Aurora Costing Model Principles

For the purposes of clause 3.2(a)(6) of the Guidelines, Aurora confirms that its costing model embodies the following principles.

6.1.1. Categorisation of Distribution Service Activities

Aurora utilises a five-dimension hierarchical structure within its business management systems (BMS) for cost attribution against the general ledger chart of accounts:

- Department: these are only used for internal business reporting and are not relevant to this CAM;
- Activity: these relate to capex or opex;
- Work Program: there are multiple Work Programs for capex and opex;
- Work Level: there are multiple Work Levels for each Work Program; and
- Work Category: there are one or more work categories for each work level.

Each asset and Work Category is assigned to a category of distribution. Where a Work Category is directly associated with an asset, costs are directly attributed to the relevant category of distribution services. By establishing a clear relationship between Work Categories and distribution services, the BMS ensures that costs are correctly attributed to the relevant distribution service. A schematic setting out the BMS components and cost flows is shown at Attachment .

The Work Categories relate to opex or capex in accordance with Australian Accounting Standards. In this way, costs are automatically separated and allocated at the source to the appropriate distribution service category.

A Work Category describes all costs that apply to Aurora's regulated and un-regulated activities. The Work Category dimension is at the base of the cost allocation hierarchy.

Aurora confirms that all costs are allocated to a Work Category.

6.2. Cost Capture and Financial Management Systems

Aurora's BMS are used to capture all of its costs, both opex and capex.

Each year, hundreds of thousands of transactions are automatically processed by the BMS. Aurora's chart of accounts and costing systems have been established so that both opex and capex can be separately accounted for and reported in accordance with the CAM and regulatory reporting requirements.

The BMS uses the five-dimension structure described in Section 6.1.1 for cost attribution against the general ledger chart of accounts.

The chart of accounts structure enables costs to be automatically costed directly to, or automatically allocates costs between, the categories of distribution services provided by Aurora, as set out above in Table 1.

6.3. Cost Allocation Policies

Aurora's BMS provides an integrated approach to tracking costs from their original source to their ultimate attribution or allocation, regardless of whether these costs originate inside or outside of Aurora.

The original source of the costs may be labour timesheets, purchase orders, requisitions, or invoices.

Costs charged to Work Categories are on a full cost recovery basis and do not incorporate internal profits.

6.3.1. Cost Allocation Approach

In accordance with clause 2.2.5 of the Guidelines, and clause 6.15.2 of the NER:

- Aurora does not allocate the same cost more than once;
- Aurora does not use the avoided cost allocation method;
- a direct cost is only attributed to one category of distribution service;
- the same cost is not treated as both a direct and a shared cost;
- a shared cost is only be allocated once; and
- Aurora recovers the same cost only once through the charges that it levies for its distribution services.

Wherever possible, Aurora directly attributes costs to the relevant Work Categories, which ensures costs are automatically attributed to the appropriate distribution service category. The majority of Aurora's costs are directly attributed in this way and a list of direct costs is included at 2.

If direct attribution is not possible, cost allocation is undertaken using the methodology detailed in section 6.4.

6.3.2. Within-division Costing Approach

The following sections set out the methodology for the costing approach used within the Network Services and Network divisions. Further details on the attribution of specific cost components summarised in this section are included at Attachment 1.

6.3.3. Service Provider Costs - Network

As noted in section 6.3.1, costs are accounted for and attributed or allocated only once. Service provider charges are costed on a full cost recovery basis, as follows:

- where the provision of services is for labour, the labour rate, inclusive of all relevant business labour overheads, is adopted; and
- purchases are costed directly to the appropriate work category.

An example of how the components of the hourly rate are built up to determine the hourly rate is set out at 8.

6.3.4. Service Provider Costs – Network Services

Network Services operates as an independent cost centre on a full cost recovery basis. It undertakes work for two types of parties:

- external parties, such as Transend; and

- Network, within Aurora.

Network Services undertakes its external work via a quotation method, which results in external acceptance, or formal negotiation, of contracts with specified rates for defined work. The nature of these rates, and the scope of this work, is commercial-in-confidence between Network Services and its external customers. Costs for all services provided to external parties (inclusive of shared costs and overheads) are directly allocated to unregulated services.

All of the costs of services that Network Services charges to Network are directly attributed on a full cost recovery[2] basis, as follows:

- where the provision of services is for labour, a fully costed labour rate is adopted. The labour rate ensures the full recovery of direct labour and all labour oncosts[3].
- Network Services' indirect business operating expenses, Aurora's Indirect Cost Allocation Model costs, shared Distribution Business costs, depreciation and finance expenses (but not its direct plant, equipment and material costs) are recovered through the labour rate by applying a labour rate overhead on an hourly basis detailed in Table 12 at Attachment 8.
- if a material variance occurs between Network Services' forecast and actual costs, an adjustment will be made to costs already allocated to distribution services to align them with actual amounts.
- plant, equipment and material costs (excluding inventory) are directly allocated to various types of work without any overhead being applied;
- the warehouse function (inventory) is a shared services function provided on a cost recovery basis. The budget costs are recovered as a charge against the estimated inventory purchases for the specific financial year, material variances are not expected; and
- provision of services by external parties to Network Services for work required by Network.

The methods by which service provider costs are charged to work categories include:

- fee for service – where the service user is charged at an agreed standard rate per unit of service; and
- fixed charge – where the service user is charged a fixed charge for provision of an agreed service.

The total cost of the service attributed or allocated to each user is apportioned on the basis of an appropriate cost driver (i.e. a causal basis). Allocating costs in this method reflects the true cost of providing services for each work category. The direct allocation of these costs to work categories leads to the direct allocation of costs to distribution services provided by Aurora.

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[2] Inter-divisional charges are cost recovery only, no margins are applied.

[3] Salaries and Wages and all labour on costs – Long Service, Annual, Public and sick leave, payroll tax, super and workers compensation.

Table 2 provides a summary of the Network Services cost items and the basis of allocation.

Table 2 – Network Services costs

Cost Item	Description	Basis of allocation
Labour and related costs	Includes the following: • Normal and overtime salaries and wages, associated payroll on-costs and employee/industry allowances; and • Supplementary labour support from external providers.	Standard rates specific to location and job type, directly allocated by employee timesheet to job/work order.
Materials	Plant, equipment and material costs (excluding inventory)	Directly allocated to job/work order.
Warehousing	Warehouse function for stock items or purchases of irregular or low turnover items.	Recovered as a charge against estimated inventory purchases.
Services	Services provided by external parties to Network Services for work required by Network	Directly allocated to job/work order.
Network Services Management and Support Costs	Network Services' indirect business operating expenses.	Recovered as a charge applied to direct labour hours allocated to job type
Fleet - Field based	Costs directly charged to works via timesheet entry. For works undertaken for external parties, an additional cost is charged for the recovery of depreciation and interest.	Directly allocated to works via direct allocation via timesheet entries.
Fleet - Administrative costs	Administrative Fleet costs are treated as part of overhead allocation model.	Recovered as a charge applied to direct labour hours allocated to job type

6.4. Shared Cost Allocation

Shared costs are allocated on a causal basis unless the shared costs are immaterial or a causal relationship cannot be established without undue cost and effort. This is consistent with the requirements of clause 2.2.4 of the Guidelines and clause 6.15.2 of the NER.

Aurora's approach identifies all material costs that the Shared Service Providers incur in providing their services and a full list of these shared costs is included at Attachment 4. The principal categories of regulated distribution services (regulated assets, meter services, market participation and other services) are allocated their share of the cost of the service on the basis of the appropriate cost driver (i.e. a causal basis). Attachment 3 sets out a more detailed explanation of the allocation of shared costs.

6.4.1. Cost Pools

Aurora has five distinct shared cost pools that must be allocated to its distribution services and these set out below.

Network Division Corporate and Shared Services costs (excl direct costs)

This includes costs relating to Commercial Services; Strategy and Corporate Affairs; Governance and People and Culture divisions which are allocated to the Network division using the ICAM.

Network Division Management costs

This includes costs relating to the management of the Network division and largely comprises operating expenditure. These shared costs flow to the Total Network Shared Cost Pool.

Distribution Business shared resource services costs

This includes costs relating to the Distribution Finance Team, the Distribution Executive, and the Distribution Safety Team. There are a number of costs associated with the distribution business, which relate to resources that are shared between the two business divisions, Network and Network Services. This CAM allocates shared distribution business costs to the cost pools of Network Management and Network Services Management using the number of employees from each of Network and Network Services divided by total number of employees in these two divisions.

Network Management costs flow into the Total Network Shared Costs Pool (discussed below in section 6.4.4); and Network Services Management costs flow into the Total Network Services Shared Cost Pool.

Network Services Division Management costs

This includes costs relating to the support and management of the Network Services division, which undertakes work for internal and external parties. Costs associated with external works are removed from this pool with the residual costs flowing to the Total Network Services Shared Cost Pool.

Network Services Division Corporate and Shared Services costs (excl direct costs)

This includes costs relating to Commercial Services, Strategy and Corporate Affairs, Governance and People and Culture divisions which are allocated to the Network Services division using the ICAM (discussed below in section 6.4.2). Costs associated with external works are removed from this pool, and the residual flows to the Total Network Services Shared Cost Pool (discussed below in section 6.4.3).

6.4.2. ICAM

Aurora's Indirect Cost Allocation Model (ICAM) allocates costs associated with Aurora's Corporate and Shared Services that are provided to Network, Network Services, Retail, Wholesale, AETV, Ezikey and Telecommunications. Corporate and shared services costs include five divisions: People & Culture; Commercial Services; Governance; Strategy & Corporate Affairs; and the Office of the CEO.

The relevant cost drivers used to allocate the various costs dealt with by the ICAM are provided at 5. Aurora uses just one non-causal allocator in the ICAM, being the weighted average of the total cost allocations that have a causal driver, and the justification for this allocator is discussed at 7. Corporate and Shared Services costs are allocated to the various operating divisions in accordance with the Tables 8 and 9 at Attachment 5.

6.4.3. Allocation of Network Services Division costs to distribution services

The Total Network Services Shared Costs Pool is allocated between distribution services classifications on the basis of direct labour hours sourced from the Program of Works.

6.4.4. Allocation of Network Division costs to distribution services

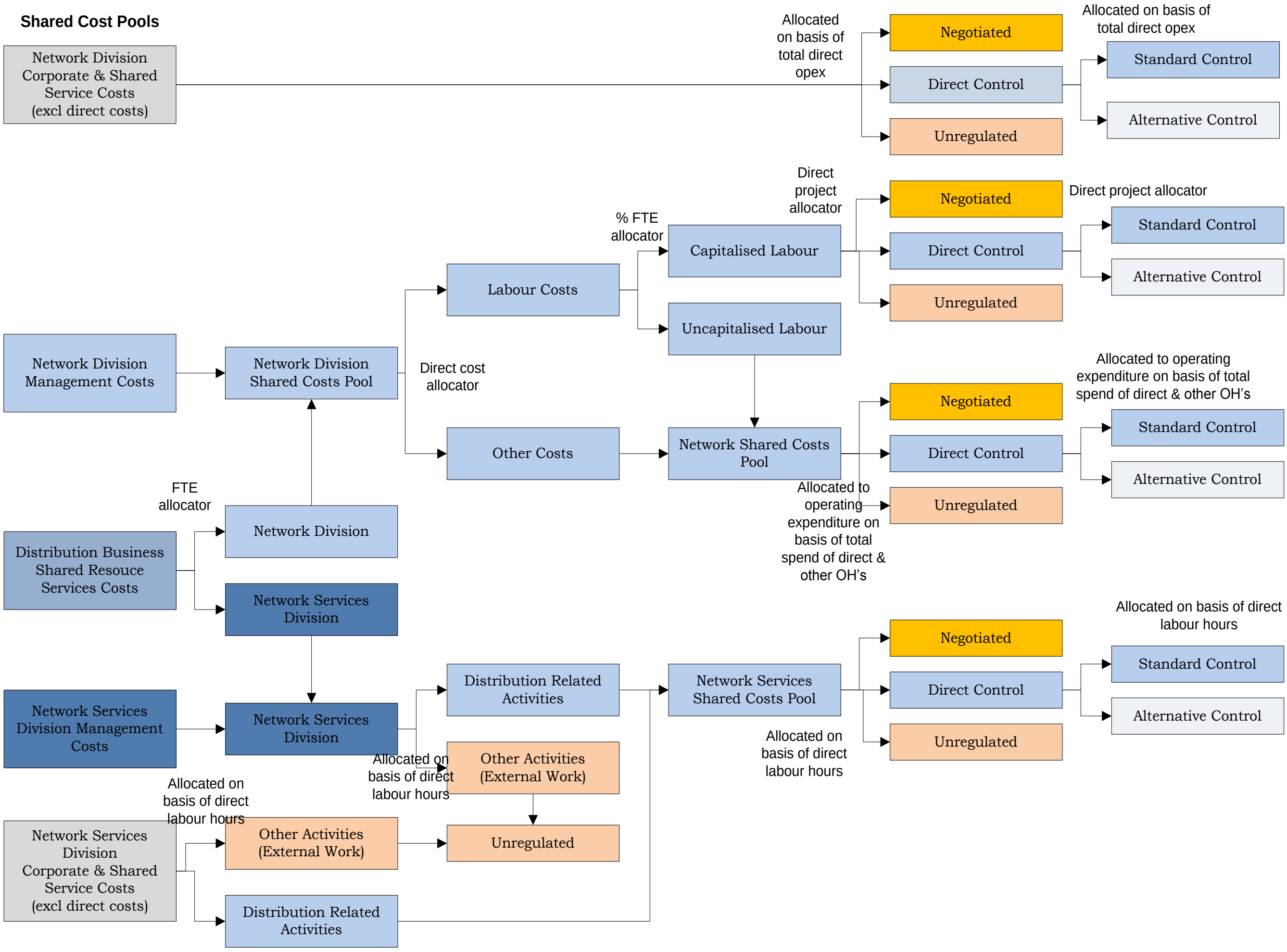
The Total Network Shared Costs Pool is allocated to four cost types, being Labour, Materials, Contractors and Other; and Mandatory Payments. The component of Labour costs associated with capital expenditure is capitalised and removed from the Total Network Shared Costs Pool.

The Network Shared Costs Pool to be allocated to operating expenditure thus comprises residual Labour; Materials; Contractors and Other; and Mandatory Payments costs. These are allocated between opex distribution service classifications on the basis of the total spend of Direct Costs including the associated allocation of Network Services Corporate and Shared Overheads; Distribution Shared Services; and Network Services overheads.

6.4.5. Overview of Shared Cost allocation

Figure 2 below provides an overview of the mechanisms through which shared costs are allocated to Aurora's distribution services.

Figure 2 Overview of shared cost allocation



6.5. Cost Allocation Consistency

This CAM will be applied consistently across each year of the next Regulatory Control Period. Should any material changes occur this CAM will be amended in accordance with clause 4.2 of the Guidelines and clause 6.15.4(f) of the NER.

As the nature of costs may change from time to time, Aurora will periodically review its CAM and the numerical values of its allocators to ensure that it is able to fully allocate its shared cost pools over time. This includes adjusting the non-causal allocations based on the actual proportion of causally allocated costs that have been allocated between the Network and Retail divisions.

6.6. Summary of cost attribution or allocation

The following summarises Aurora's approach to cost attribution or allocation under this CAM:

- Cost are allocated to a work category, and wherever possible, capex and opex is directly attributed to the Work Programs detailed in section 6.3.2 above;
- costs that cannot be directly attributed are treated as shared costs which comprise five cost pools to be allocated between divisions, and then between service classifications and services;
- wherever possible, corporate shared costs are causally allocated between the various Divisions using the ICAM cost drivers detailed in Attachment 5;
- where corporate overhead and shared services costs cannot be causally allocated they are allocated between divisions using a non-causal basis by applying the split of causally allocated costs;
- a pool of shared costs for the Network Services division is established based on identified network services shared costs, and costs that have been causally and non-causally allocated. This cost pool is in turn allocated between Aurora's Standard Control Services, Alternative Control Services, Negotiated Distribution Services and Unclassified Services on the basis of direct labour hours; and
- a pool of shared costs for the Network division is established based on identified network management shared costs, and costs that have been causally and non-causally allocated. The opex associated with this cost pool is in turn allocated between Aurora's Standard Control Services, Alternative Control Services, Negotiated Distribution Services and Unclassified Services on the basis of the total spend of direct costs including the overheads of the previous paragraph. The capex associated with this is capitalised and directly attributed to the appropriate cost item.
- Where the substance and legal form of a transaction differ, the substance rather than the legal form of a transaction or event shall be used as the basis of cost attribution or allocation.

7. Compliance and Documentation

7.1. Audit Trails and Documentation

For the purposes of clause 3.2(a)(7) of the Guidelines, Aurora confirms that it maintains financial source documentation and records consistent with the accounting standards and statutory requirements adequately to demonstrate compliance with its method.

Aurora will prepare and maintain appropriate documentation and information that support the preparation of regulatory financial reports for submission to the AER.

This CAM is intended to remain consistent over time so that actual and forecast costs can be compared. This is verified through the certified annual financial statements and additional financial information that is prepared in accordance with relevant accounting standards and regulatory requirements.

Costing is recorded through Aurora's BMS. Through the BMS, Aurora maintains records of attribution of direct costs, or allocation of shared costs to, or between, categories of distribution services. This approach currently forms the basis for the independent verification of the annual regulatory accounts, and can be provided if requested by the AER.

When preparing reports for submission to the AER, Aurora will continue to have available working papers and/or documentation with sufficient detail to demonstrate that Aurora has complied with the requirements of its CAM.

Aurora maintains all source documents and records (timesheets/invoices) for a minimum period of seven (7) years.

General ledger trial balances and transaction listings as well as cost allocation working papers are retained for a minimum period of seven (7) years.

7.2. Regulatory Compliance

Clause 3.2(a)(8) of the Guidelines requires this CAM to provide information about how Aurora will monitor its compliance with this CAM and the Guidelines.

As discussed in section 4.1 above, for the purposes of clause 3.2(a)(3)A of the Guidelines, the General Manager – Network is delegated responsibility for monitoring and ensuring compliance with the CAM across Aurora.

The annual statutory financial statements and BMS processes are reviewed by external audit. This audit is overseen by the Chief Financial Officer.

Aurora confirms that the detailed principles, policies and approach of this CAM is consistent with the ring-fenced accounting guidelines as required by clause 2.2.6 of the Guidelines and clause 6.17 of the NER.

In addition, on an annual basis, Aurora undertakes an independent audit of its regulatory financial statements to ensure it is compliant with regulatory reporting requirements, including the CAM. This audit is also overseen by the Chief Financial Officer.

7.3. Consistency Between Reporting Periods

Subject to an overriding requirement to produce accounting information that provides a true and fair view of costs, consistent bases of allocation must be maintained whenever possible between reporting periods to assist the AER to compare the regulatory financial reports of Aurora over time to identify trends in its financial position and performance.

It is not generally possible to warrant whether and when an allocator may need to be changed in the future. In assessing a requirement to change a basis of allocation for the future, Aurora will have regard for:

- fairness;
- relevance;
- reliability; and
- requirements for comparability set out in the Australian Government Accounting Standards Board (AASB) 'Framework for the Preparation and Presentation of Financial Statements', consistent with the overriding principles.

The AASB sets out the concepts that underlie the preparation and presentation of financial reports for external users. In particular paragraph 41 states:

> *"The need for comparability should not be confused with more uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an entity to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for an entity to leave its accounting policies unchanged when more relevant and reliable alternatives exist."*

Aurora will ensure that costs associated with the operation of Aurora's subsidiaries are effectively quarantined and are not cross-subsidised by any of Aurora's other operations including its distribution business.

7.4. Historical Comparability

Historical accounts prepared in accordance with the Ring Fencing Guidelines will differ from historical financial data prepared in accordance with this CAM. This is due to differences in the classification of services and the ICAM approach. To provide historical comparability, if required by the AER, Aurora will provide a reconciliation between allocations made in accordance with this CAM and historical allocations made in accordance with the Ring Fencing Guidelines.

From the commencement of this CAM, cost allocations used to prepare accounts in accordance with the Ring Fencing Guidelines will be made in accordance with this CAM.

7.5. Publication of Method

Consistent with the requirements of clause 5.4 of the Guidelines and clause 6.15.4(h) of the NER, a current copy of Aurora's approved CAM will be maintained and published on Aurora's website.

Attachment 1: Attribution of Direct Costs

Aurora employs a full absorption methodology for the allocation of costs. This entails allocating all direct costs to identify the total cost to the organisation for undertaking its work.

Aurora has in place a comprehensive work activity structure that defines the lines of work to which each transaction relates. The work category code clearly identifies costs as relating to standard control services, alternative control services, negotiated distribution services or unregulated services.

Labour and Related Expenditure

Labour and related expenditure includes costs associated with Aurora's internal resources and labour contractors. Costs are attributed to a job number in Aurora's planning and costing tool (WASP) by way of standard calculated rates. Labour rates are calculated on a skill level basis and are inclusive of labour on-costs.

Total labour costs for internal employees are calculated to include normal salaries and wages, associated payroll on-costs and employee/industry allowances. Payroll on-costs include public holidays, leave superannuation and payroll tax. Labour rates for productive work also recover the non-productive time of employees including attendance at general and safety meetings and down-time to perform administrative duties.

External labour contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. Contractor costs are incorporated into job costs and therefore attract a portion of Network Services Management, Distribution Shared Services and Corporate and Shared Services costs in the same manner as work undertaken for internal purposes.

Labour and related costs are charged directly to work orders by way of employee timesheets being entered into WASP. They are calculated for the following year as part of the annual budget cycle, a five year program of work estimating labour hours is developed for the purposes of a forthcoming revenue determination.

Materials

Materials are directly attributed to work orders at cost. This includes stock items distributed through Aurora's centralised warehouse or stores and specific purchases or irregular or low turnover items such as specialised transformers, or plant and equipment. An on-cost is added to stock material to cover the cost of:

- Purchasing;
- Warehousing (provision of the shared services function); and
- Delivery of materials between Aurora's warehouses.

This is in the form of a percentage applied to the direct cost of the material. Rates are calculated each year as part of the annual budget cycle.

Fleet

Aurora's Commercial Services division is responsible for the administration of fleet services, therefore costs are allocated to Network and Network Services through the fleet charging mechanism. A fleet usage charge is administered by the Commercial Services division as a mechanism for recovery of operational and maintenance charges and for cost of capital (this component is only utilised when charging external customers).

The entire fleet of vehicles allocated to Aurora's Distribution Business (including the Network and Network Services divisions) are included within the Regulatory Asset Base (RAB). As a result Aurora's Distribution Business receives a regulated revenue stream for the costs of owning, operating and maintaining this fleet.

Fleet usage charges are used for the purposes of recovery of operational maintenance costs and are allocated to Aurora's Network Services and Network divisions. Each division is assigned the use of specific vehicles, and costs are allocated to each division on the basis of costs associated with each of these vehicles. Costs allocated to Network Services flow on to the total Network Services shared cost pool; and costs allocated to Network flow on the total Network Management shared cost pool.

Fleet are used for both administrative functions and field based work. For internal work, usage charge rates associated with vehicles supporting the administrative functions of the Network Services Division form part of the Network Services overhead allocation. These overheads are allocated on a pro-rata basis across all Network Services direct work, at a job and program level, using direct labour hours as the causal driver. Usage charge rates (including operational and maintenance costs only) for field based vehicles are used to directly attribute fleet costs at a job and program level based on timesheet allocation.

For external work, fleet usage charge rates include an additional cost of capital component (for the recovery of depreciation and interest) and are directly allocated to jobs based on a timesheet allocation which is recorded in WASP.

A revenue adjustment mechanism is used to allocate revenue between service classifications (from Standard Control Services to Alternative Control Services). Fleet usage charge rates with the inclusion of the cost of capital component are used to calculate the fleet derived revenue forming part of the standard control revenue build. This result in a proportional adjustment based on alternative control and unregulated utilisation percentages.

External Services

Aurora's Network Services division is responsible for the design, construction and maintenance of the distribution network assets to ensure a safe and reliable network. Network Services undertakes work for internal and external parties including:

- Transend Networks Pty Ltd;
- Hydro Tasmania; and
- Internal work undertaken for Aurora's Network division.

All of the costs charged by Network Services to external customers are directly attributed on a cost recovery basis using a quotation method. This methodology includes:

- Where the provision of services is for labour, a costed labour is adopted. The labour rate ensures the full recovery of direct labour and all labour on costs.
- Plant, equipment and material costs (excluding inventory) are directly allocated to various types of work.
- The warehouse function (inventory) is a shared services function provided on a cost recovery basis. The budget costs are recovered as a charge against the estimated inventory purchases for the specific financial year, and charged to external customers as materials are issued from the warehouse. For external work this on cost includes a component for the recovery of depreciation and interest costs.
- Direct works (field based) fleet costs (running costs) are directly allocated to jobs and categories of service via timesheets for both internal and external works. For external work a component is added for depreciation and interest to the amount that is charged.
- Costs associated with the management and support of the Network Services division (including a portion of allocated Distribution Shared Services costs) are distributed across all directly attributed work (internal and external) based on the number of direct labour hours involved with the job/program as proportion of total program of work direct labour hours (pro-rata allocation).
- Corporate and Shared Services costs allocated to the Network Services division are distributed across all directly attributed work (internal and external) based on the number of direct labour hours involved with the job/program as a proportion of total program of work direct labour hours (pro-rata allocation).

Attachment 2: List of Directly Attributable Costs

The tables below set out a brief description of each cost item; and the category of distribution service to which each cost item is to be directly attributed. Aurora confirms that the Work Category Code is attributed to each item to associates them uniquely with a specific category of distribution service. This is in accordance with clauses 2.2.1(b)(1)(A)-(C) of the Cost Allocation Guidelines.

Operating Expenditure

Operating expenditure comprises the following cost items as listed below in Table 3.

Table 3 - Operating expenditure direct cost attribution

Category	Sub-category	Description	Distribution Service
Operating Costs	GSL Payments	Operating expenditure for the payment of guaranteed service level payments	SCS
	Electrical Safety Levy	Operating expenditure for maintaining electrical safety within Aurora	SCS
	NEM Levy	Operating expenditure for National Electricity Market levy charge	SCS
	NEM & Contestability Related Costs	Operating expenditure in relation to NEM and contestability related costs.	SCS
	System Operations	Operating expenditure for the real time management of the distribution network and provision of dynamic system supervision	SCS
Maintenance Costs	Routine Maintenance Non-Network Asset Maintenance	Operating expenditure for planned maintenance costs for vegetation, fault, connection asset repairs and inspections.	SCS
	Routine Maintenance Network Asset Maintenance	Operating expenditure for planned network system costs	SCS
	Non-Routine Maintenance Non-Network Asset Maintenance	Operating expenditure for unplanned maintenance costs for vegetation, fault, connection asset repairs and inspections.	SCS
	Non-Routine Maintenance Network Asset Maintenance	Operating expenditure for unplanned network system costs	SCS

Category	Sub-category	Description	Distribution Service
Demand Management	Demand Management	Operating expenditure associated with demand side management initiatives including capex deferrals	SCS
Alternative Control	Opex Alternative Control Metering	Operating expenditure associated with the provision of metering services	ACS
	Opex Alternative Control Lighting	Operating expenditure associated with the provision of public lighting services	ACS
	Opex Alternative Control Fee Based Services	Operating expenditure associated with alternative control services whose prices are set and charged on the basis of a fixed fee	ACS
	Opex Alternative Control Quoted Services	Operating expenditure associated provision of services on a case by case basis	ACS
Unregulated	Opex Unregulated Metering	Operating expenditure associated provision of contestable metering services	Unregulated
	Opex Unregulated Other	Operating expenditure associated with unregulated distribution business services	Unregulated

Capital Expenditure

Capital expenditure comprises the following cost items as listed below in Table 4.

Table 4 - Capital expenditure direct cost attribution

Category	Sub-category	Description	Distribution Service
Demand Related	Customer Initiated	Capital expenditure related to connecting customers to the network or changes to existing customer connections	SCS
	Reinforcements	Capital expenditure directly resulting from changes to, or forecast changes to, the existing pattern or profile of demand where not classified as customer initiated capex.	SCS
Non-Demand Related	Reliability & Quality	Capital expenditure primarily for the replacement of distribution assets that have reached the end of economic lives and falls within reliability and quality capex categories	SCS
SCADA	SCADA & Network Control	Capital expenditure associated with replacement, installation and maintenance of SCADA and network control hardware, software & associated IT systems.	SCS
Alternative Control	Capex Alternative Control Metering	Capital expenditure associated with the provision of metering services	ACS
	Capex Alternative Control Lighting	Capital expenditure associated with the provision of public lighting services	ACS

Category	Sub-category	Description	Distribution Service
	Capex Alternative Control Fee Based Services	Capital expenditure associated with alternative control services whose prices are set and charged on the basis of a fixed fee	ACS
	Capex Alternative Control Quoted Services	Capital expenditure associated provision of services on a case by case basis	ACS
Unregulated	Opex Unregulated Metering	Capital expenditure associated provision of contestable metering services	Unregulated
	Opex Unregulated Other	Capital expenditure associated with unregulated distribution business services	Unregulated

Attachment 3: Allocation of Shared Costs

This section provides supplementary information to support the methodology for allocating shared costs, as set out in section 6.4.

Distribution Business Shared Resource Services Costs

Distribution Business Shared Resource Services include costs associated with functions which support both Network and Network Services Divisions. These include:

- the Distribution Finance Team, providing finance support for both divisions within Aurora's Distribution Business;
- the Distribution Executive, providing strategic direction and management for the whole of Aurora's Distribution Business; and
- the Distribution Safety Team.

These distribution shared services costs are allocated between Network and Network Services divisions (forming part of the Network Services Division Management Costs and the Network Division Management Costs) using a driver of full time equivalent employees (FTE). Forecast FTE numbers for both the divisions of Network and Network Services are derived as part of the distribution business annual budget process.

The allocation of the Distribution Business Shared Resource Services costs to the divisions of Network and Network Services utilising an FTE causal driver. For example, the allocation to the Network Services Division is derived by dividing the Network Services FTE by the total FTE of both Network and Network Service Divisions and then multiplying by the Distribution Shared Services Costs to be allocated.

Once allocated to Network and Network Services Divisions these costs form part of the Network Services Division Management and Network Divisional Management cost pools and are therefore treated in the same manner.

Network Services Division Management Costs

Network Services Division Management Costs (including the allocated portion of Distribution Business Shared Resource Services costs) are distributed across all directly attributed work (internal and external) using a labour hour allocator. This pro-rata allocation basis allows Network Services Division Management Costs to be attributed at the job/program level.

Network Division Management Costs

Aurora's Network division is responsible for planning; operating and monitoring the distribution network, including planning the forward program of work. Network Division Management costs are disaggregated for allocation purposes into the following:

- Labour; and
- Material, Contractor and Other Costs.

Labour Costs

Labour costs associated directly with Aurora's Network Division capital expenditure are capitalised in accordance with Aurora's capitalisation policy, and the capitalised component is attributed directly to service classifications.

Labour costs which have not been capitalised are treated in the same manner as the associate material, contractor and other costs.

Material, Contractor and Other Costs

Network division associated material, contractor, other costs, the residual labour costs (not capitalised) and a proportion of the distribution shared services costs (Network Division allocated) form a cost pool for allocation. These costs are allocated as opex costs to Service Classifications using a total direct spend driver (inclusive of Network Services Division Management Costs and Network Services Corporate and Shared Services Costs).

Corporate and Shared Services Costs - Opex

Aurora's Corporate Services can be described as services that contribute to the direction of Aurora and provide appropriate governance to support Aurora's purpose. Corporate services primarily sustain the Board and operation of the Company management framework.

Corporate and Shared Services costs are allocated on a causal basis unless a causal relationship cannot be established without undue cost and effort. Aurora's ICAM is used to allocate corporate overhead and shared services costs between divisions and subsidiaries. In circumstances where a causal allocation can be established, costs are allocated on that basis. Where this is not the case, costs are allocated on a non-causal basis with consideration given to ensure that the allocation method chosen best reflects the use of the relevant services. Aurora uses just one non-causal allocator, being the weighted average of the total cost allocations that have a causality driver.

Network Services Division Corporate and Shared Services Costs (excl direct costs)

Corporate and Shared Services costs allocated to Aurora's Network Services division are attributed on a cost recovery basis as follows:

A proportion of Corporate and Shared Services costs are attributed to work undertaken for external customers. A pro-rata allocation based on the number of labour hours as a percentage of total labour hours within the program of work is used for allocated purposes.

The residual Network Services allocated Corporate and Shared Services costs are distributed across all internal directly attributed work based on the number of direct labour hours involved with the job or program as a percentage of total labour hours as forecasted within the program of work.

Network Division Corporate and Shared Services Costs (excl direct costs)

Corporate and Shared Services costs allocated to Aurora's Network division are attributed on a cost recovery basis as follows:

Where expenditure is clearly identifiable and attributable to Service Classifications it is directly allocated, this allocation is undertaken as part of Aurora's ICAM.

The residual Network apportioned Corporate and Shared Services Costs are allocated between Aurora's Standard Control, Alternative Control and Unregulated Services based on its direct opex (inclusive of Network Services Division Management Costs and Network Services Corporate and Shared Services Costs) for each year of the Regulatory Control Period (table 5(a)).

Corporate and Shared Services Costs - Capex

Aurora's Corporate and Shared Services have responsibility for the provision of company information system assets and for the administration of fleet and property assets. Where possible capital expenditure is directly allocated to a division or subsidiary of Aurora this occurs when the capex project can be attributed to the objectives of the division or subsidiary.

Corporate and Shared Services capex costs allocated to the divisions of Network and Network Services are treated using the same methodology. Costs are allocated directly to service classifications where a clear linkage exists and as outputted by the ICAM. The residual Network and Network Services apportioned Corporate and Shared Services Costs are allocated between Aurora's Standard Control, Alternative Control and Unregulated Services based on total direct expenditure (inclusive of Network Services Division Management Costs and Network Services Corporate and Shared Services Costs) for each year of the Regulatory Control Period (table 5(b)).

Table 5(a)

NETWORK APPORTIONED CORPORATE AND SHARED SERVICE COSTS – OPEX	
FORM OF CONTROL	**METHODOLOGY**
Standard Control Services	Proportion of Direct Standard Control Services Opex to Total Direct Opex – set at the commencement of each Revenue Reset NEM and Market expenditure are allocated directly
Alternative Control Services	Proportion of Direct Alternative Control Services (Meters, Roadlighting)) Opex to Total Direct Opex – set at the commencement of each Revenue Reset
Unregulated Services	Proportion of Direct Unregulated Services (external work, PAYG) Opex to Total Direct Opex – set at the commencement of each Revenue Reset
Negotiated Services	Proportion of Direct Negotiated Services (customer initiated major projects) Opex to Total Direct Opex – set at the commencement of each Revenue Reset

Table 5(b)

NETWORK AND NETWORK SERVICES APPORTIONED CORPORATE AND SHARED SERVICE COSTS – CAPEX	
FORM OF CONTROL	**METHODOLOGY**
Standard Control Services	Proportion of Direct Standard Control Services Capex to Total Direct Opex and Capex – set at the commencement of each Revenue Reset NEM and Market expenditure are allocated directly
Alternative Control Services	Proportion of Direct Alternative Control Services (Meters, Roadlighting)) Capex to Total Direct Opex and Capex – set at the commencement of each Revenue Reset
Unregulated Services	Proportion of Direct Unregulated Services (external work, PAYG) Capex to Total Direct Opex and Capex – set at the commencement of each Revenue Reset
Negotiated Services	Proportion of Direct Negotiated Services (customer initiated major projects) Capex to Total Direct Opex and Capex – set at the commencement of each Revenue Reset

Attachment 4: List of Shared Services Costs

The table below shows the complete list of shared costs for each of the cost pools that apply to Aurora's Network and Network Services divisions, as per Aurora's organisational structure detailed at section 4.3. of this CAM. In accordance with 2.2.1(b)(2) of the Guidelines this table also includes associated information relating to the nature of the cost item, the allocator used to allocate costs between Aurora's divisions and subsidiaries, and the justification for each allocator.

Regardless of the cost pool from which cost items originate, each cost item will ultimately be allocated between each of SCS, ACS, NDS and Unregulated services using the appropriate allocation mechanism.

Table 6 - Shared Cost Items

ICAM Allocations

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Office of the CEO	Provides the central management and administrative support for the CEO and the Aurora Board of Directors.	Weighted Average	Reflects of the role of the Board and the strategic business management focus on divisions and subsidiaries.	Standard Control Alternative Control Negotiated Unregulated	Same – Previously based on Weighted Average
Board	Seven board members, six of which are non-executive directors with the CEO acting as an executive director.	Weighted Average	Reflects of the role of the Board and the strategic business management focus on divisions and subsidiaries.	Standard Control Alternative Control Negotiated Unregulated	Same – Previously based on Weighted Average
Internal Audit	Provides the Board and Management with independent, objective assurance designed to assist Aurora in accomplishing its objectives.	Weighted Average	Reflects the strong relationship between the department and the Board that is allocated on the Weighted Average method.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on managerial estimate, predicated on expected compliance programme

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Group Finance	Ensures the provision of commercially astute business support and analysis, provision of strategic financial advice and strong financial compliance, processes across.	Weighted Average	Reflects relationship with the major clients the CFO, the CEO and the Board.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on divisional profitability (non casual)
Treasury Operations – Residual	Manages and controls Aurora's cash management, debt management and associated finance compliance functions.	Weighted Average	Reflects relationship with the major clients the CFO, the CEO and the Board.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on managerial estimate
Treasury Operations – Debt Management	Develops of the Debt strategy, portfolio management, maintaining sufficient liquidity reserves, maintenance of inter company and intra company loans, investment maintenance, and development of funding strategies	Debt Portfolio	Reflects costs of managing the borrowing program required to fund the Distribution CAPEX program.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on managerial estimate
Treasury Operations – Insurance - Property	Covers Aurora owned buildings, substation assets & buildings and minor assets selected for insurance.	Insured Property Asset Values	Reflects percentage of the asset values insured covering selected building assets (includes all depots state-wide), substation assets (includes major and minor substations) and minor assets (includes Network Services tools and minor equipment to perform daily work).	Standard Control Alternative Control Negotiated Unregulated	Same – Previously based on Asset Values

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Treasury Operations – Insurance - Liability	Covers legal liability for professional indemnity, public liability and product liability caused by an occurrence in connection with the business.	Insurance - Liability Risk Assessment	Reflects risk determined by assessing risk factors of business size (number of people) and likelihood of specific risks occurring and resulting in a claim.	Standard Control Alternative Control Negotiated Unregulated	Same – Previously Risk Based
Treasury Operations – Insurance - Other	Covers brokerage, reporting and risk analysis of insured and uninsured articles.	Insurance - Other & Brokerage Risk Assessment	Reflects that premium operation activity is made at the insurance period end and historically has resulted in a refund to Aurora.	Standard Control Alternative Control Negotiated Unregulated	Same – Previously Risk Based
Accounts Payable and Sundry Receivables	Provides an accounts payable and accounts receivable facility to the divisions of Aurora Energy, Aurora's creditors and Aurora's sundry debtors (i.e. Non Retail debtors).	Volume of External Invoices	The related costs are immaterial and not easily identifiable reducing reliability of the cost data. Accordingly the costs are allocated on the same basis as accounts payable transaction volumes.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on managerial estimate
Corporate Secretariat & Legal	Provides services to Aurora ranging from commercial, advisory and statutory compliance to litigation services.	Weighted Average	Required on basis that there is no identified causal relationship between the costs, primarily labour and the divisions and subsidiaries.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
ISG - Executive Management	Manages Aurora's information system strategy, its operations and the performance delivery.	Number of PCs	Reflects the strong causality between senior management objectives and the service delivery of the IT Applications and IT Infrastructure.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on Weighted Average of the ISG Department
ISG - Information Management	Manages Aurora's Document Management system and physical document management.	Number of PCs	Reflects document management requirements of each division.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on managerial estimate
ISG - Infrastructure	provides a range of IT infrastructure advice and services, including management of Aurora's computer environment, data network and PC fleet infrastructure.	Number of PCs	Reflects strong causal link between the number of Aurora people who use PCs and the work load and direct cost to deliver infrastructure requirements through PC based systems.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate, that is predicated on the future forecast system costs
ISG - Application Management – Residual	manages, test and facilitate continuous operation of Aurora's enterprise wide Business Management System and its feeder systems.	Number of PCs	Reflects strong causal link between the number of Aurora people who use PCs and the work load and direct cost to deliver infrastructure requirements through PC based systems.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate, that is predicated on the future forecast system costs

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
ISG - Application Management	Manages distribution business applications including the MDMS licence and support agreement, and WASP licence and support agreement.	Direct Allocation - Network	Reflects that O&M costs are separately identifiable and are allocated directly and wholly to the Network Services Division.	Standard Control Alternative Control Negotiated Unregulated	Same – Where costs are directly attributable then the costs are allocated directly
ISG - Application Development	oversees the introduction of new application systems in Aurora, including the ownership and maintenance of the Aurora software development methodology, and managing and coordinating IT application development.	Number of PCs	Reflects strong causal link between the number of Aurora people who use PCs and the work load and direct cost to deliver infrastructure requirements through PC based systems.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate, that is predicated on the future forecast system costs
ISG - Programme Management	centre of excellence for project management and organisational change primarily focusing on IT projects.	Number of PCs	Reflects strong causal link between the OPEX work activity and the CAPEX project work undertaken by the PMO on all IT CAPEX projects.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate, that is predicated on the future forecast system costs
Facilities Management – residual	provides a full range of facilities services to Aurora for the operation and management all owned and leased sites occupied by Aurora employees.	All occupied Floor Space	Reflects the nature of property strategy for all Aurora sites, and accordingly the level of resource effort applied to property management.	Standard Control Alternative Control Negotiated Unregulated	Same – based on floor space
Facilities Management – rent	Rental fees for all occupied rental space.	Rented occupied floor space	Reflects actual usage	Standard Control Alternative Control Negotiated Unregulated	Same - Where costs are directly attributable then the costs are allocated directly

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Supply Exec	ensure the objectives and strategies of Supply Group are delivered	Dollar Value of Contracts	Reflects the overall volume, complexity and resource effort involved to oversee and manage the groups' core functions.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on a weighted average of the supply chain function
Materials Management (Outside of ICAM)	Provides Inventory Management and Warehouse Management services for the Distribution business Program of Work (POW).	Excluded from ICAM and are effectively directly allocated as on costs to each division and subsidiary through the materials issuing process.		Standard Control Alternative Control Negotiated Unregulated	N/A
Contracts	ensuring that relationships with suppliers of goods and services are developed and maintained in a fair, equitable and consistent manner.	Dollar Value of Contracts	Reflects the overall contract volume, complexity and resource effort involved in establishing, maintaining and finalising contracts for each division and subsidiary.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate
Fleet (Outside of ICAM)	owns and manages its fleet and has a responsibility to the company's shareholders to ensure that value for money is achieved through procurement and throughout whole of life management.	N/A	Fleet management, administrative and operational costs are included in the fleet hire charges unless they can be directly charged to the division or subsidiary	Standard Control Alternative Control Negotiated Unregulated	N/A

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Procurement	manage and perform the order placement to delivery process with suppliers for all direct charge purchases including expediting all quantity, price and delivery queries relating to the orders.	Dollar Value of Contracts	Reflects the overall purchasing volume as all goods and services purchases are based on contracts with suppliers.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate
Strategy & Planning – residual	assists Aurora to identify, understand and manage the impact of these issues on our strategy.	Weighted Average	Reflects the functional relationship with the Board's focus	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate
SCA Management	primarily driven by the corporate governance function for the benefit of the Board and the CEO.	Weighted Average	Reflects the functional relationship with the Board's focus	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate
Market & Regulatory Policy	help Aurora understand, influence and respond to its external environment.	Weighted Average	Reflects the functional relationship with the Board's focus	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate
Corporate Affairs – residual	responsible for a broad range of internal and external communications activities including managing relationships with shareholders and other political stakeholders, news media, employees, education, community organizations and supporting the CEO and AET with their communications.	Weighted Average	Reflects the area's relationship to the Board.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Corporate Affairs – Sponsorship	overall management of Aurora's business wide corporate affairs function including stakeholder and shareholder relations.	Weighted Average	Reflects the area's relationship to the Board.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on Asset Values (non causal)
Corporate Affairs – Public Relations	media support for the Aurora divisions and subsidiaries.	Weighted Average	Reflects the area's relationship to the Board.	Standard Control Alternative Control Negotiated Unregulated	Different – Previously based on managerial estimate
Sustainability	driven primarily by the legislative requirement to comply with the National Greenhouse and Energy Act and Aurora's requirement to act as a good corporate citizen.	Weighted Average	Reflects the area's relationship to the Board.	Standard Control Alternative Control Negotiated Unregulated	Different – Based on managerial estimate
PC - Executive & Management	focuses on the provision of systems and professional advice for attracting, retaining, motivating, managing, developing and rewarding the organisation's employees in line with Aurora's overall business strategic aims.	Number of FTEs	HR Executive & Management focus is driven by the size of the workforce, policy, occupation diversity and award complexity. The total number of FTE's is reflective of the resource effort to achieve this focus.	Standard Control Alternative Control Negotiated Unregulated	Same – Number of FTEs
PC - Safety, Health & Environment	Managing Safety, Health and Environment.	Number of FTEs	Reflects allocation of employee effort to the respective division and subsidiary.	Standard Control Alternative Control Negotiated Unregulated	Same – Number of FTEs

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
PC - Remuneration & Benefits	Management and administration of all payroll and related processes	Number of FTEs	Reflects of the resource effort to achieve this focus.	Standard Control Alternative Control Negotiated Unregulated	Same – Number of FTEs
PC - Divisional P&C	delivery of services to fit the size of the workforce, policy, occupation diversity and award complexity.	Number of FTEs	Reflects of the resource effort to deliver this service.	Standard Control Alternative Control Negotiated Unregulated	Same – Number of FTEs
PC - Training	service a workforce with diverse occupations and skill sets.	Number of FTEs	Reflects of the resource effort to achieve this focus.	Standard Control Alternative Control Negotiated Unregulated	Same – Number of FTEs
Light Vehicle Fleet	All vehicle groups in the range 01 - 22 covering passenger vehicles and light vehicles, i.e. sedans, station wagons, utilities and flat trays that are 2x4 and 4x4 capable.	Number of Light Vehicles	Each vehicle is allotted to a division or subsidiary resulting in a strong causal relationship between the individual vehicle capex and the division and subsidiary.	Standard Control Alternative Control Negotiated Unregulated	Same based on direct allocation of vehicle to Division (number of vehicles)

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Heavy Vehicle Fleet	All vehicles groups in the range 23 – 97 cover trucks, plant and the related fit out.	Direct Allocation for Heavy Vehicles	The Network Services division is the sole operator of the heavy fleet to primarily perform distribution maintenance and construction. The division also undertakes unregulated work for companies with Transmission and Distribution assets.	Standard Control Alternative Control Negotiated Unregulated	Same based on direct allocation of vehicle to Division (number of vehicles)
Light Vehicle Fleet	All vehicle groups in the range 01 - 22 covering passenger vehicles and light vehicles, i.e. sedans, station wagons, utilities and flat trays that are 2x4 and 4x4 capable.	Number of Light Vehicles	Each vehicle is allotted to a division or subsidiary resulting in a strong causal relationship between the individual vehicle capex and the division and subsidiary.	Standard Control Alternative Control Negotiated Unregulated	Same based on direct allocation of vehicle to Division (number of vehicles)
Business Specific Property Assets	Property assets owned and leased by Aurora and are wholly utilised by one division or subsidiary.	Direct Allocation for Property	Reflects direct usage by the division.	Standard Control Alternative Control Negotiated Unregulated	Same allocation
Network Services Systems	Supports the delivery of the objectives of the business, the relevant systems support the delivery of electrical inspectors project (unregulated).	Direct Allocation to Network Services	This system is used directly by Network Services and only Network Services. It does not form part of the Regulated Asset Base so therefore is not allocated to Network.	Standard Control Alternative Control Negotiated Unregulated	Same allocation

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Network Systems	Supports the delivery of the objectives of the business, the relevant systems support the delivery of metering asset and data management, customer charter management, distribution asset management and asset record management.	Direct Allocation to Network	Network Core systems Upgrade / Direct Allocation – Network - This project spans a number of core Network systems, however they are all directly attributable to Network Division. MVRS upgrades annually / Direct Allocation – Alternative Control Services - The Multi Vendor Recording System (MVRS) is used for alternate control services. Therefore it has been allocated as such.	Standard Control Alternative Control Negotiated Unregulated	Same allocation
People & Culture Business Systems	Supports the delivery of the objectives of the company, the relevant systems provide end to end process management including career, recruitment, payroll, safety management, performance management and culture survey.	Number of FTE's	Reflects the amount of effort that People and Culture would reasonably put into each division.	Standard Control Alternative Control Negotiated Unregulated	Same allocation
Financial Management Business Systems	Supports the delivery of the objectives of the company, the relevant systems provide budgeting and forecasting, integrated financial management, Business Intelligence tools and auditing tools.	Volume of Finance System Transactions per Division; Even Split - Network, Network Services and Retail; Even Split - Network and Retail	Reflects the system usage.	Standard Control Alternative Control Negotiated Unregulated	Previous allocation was based on arbitrary percentage allocation based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
IT Server Environment, Network Environment and Management	Supports the server environment, network environment and general management of IT	Applications per Division	Cost of these environments is driven largely by the number, and size, of the applications that they must support.	Standard Control Alternative Control Negotiated Unregulated	Previous allocation of Corporate shared systems was based on arbitrary percentage allocation based on managerial estimate
Telecommunications – VOIP and PABX	Supports the telecommunications of the business and potentially replace the existing landlines	Number of landlines	Consistent with the number of landlines that are currently held by each division	Standard Control Alternative Control Negotiated Unregulated	Same allocation method
IT Desktop Environment, Virtualisation Environment, Application Environment and Storage Environment	Supports the desktop, virtualisation and application environment for PCs.	Number of PCs per division	Reflects the cost of each of these environments	Standard Control Alternative Control Negotiated Unregulated	Same allocation- PC allocated to each Division
IT Storage Environment	Supports the storage available for users and their PCs.	Number of PCs per division	Reflects the size and cost of the storage environment required	Standard Control Alternative Control Negotiated Unregulated	Previous allocation of Corporate shared systems was based on arbitrary percentage allocation based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Inventory and Logistics Business Systems	Supports the delivery of the objectives of the business, the relevant systems provide inventory and logistics management suite of systems.	Direct Allocation to Network	In the Regulated Asset Base and therefore is directly allocated to Network.	Standard Control Alternative Control Negotiated Unregulated	
Procure to Payment Business Systems (excluding purchasing card)	Supports the delivery of the objectives of the company, the relevant systems provide procurement, invoice automation and expenditure management.	Volume of External Invoices	Support purchasing in the business	Standard Control Alternative Control Negotiated Unregulated	Previous allocation of Corporate shared systems was based on arbitrary percentage allocation based on managerial estimate
Procure to Payment Business Systems (purchasing card only)	Supports the delivery of the objectives of the company, the relevant systems provide data entry, authorization, payment and reporting.	Number of Purchase Cards per Division	Supports the purchasing cards in the business	Standard Control Alternative Control Negotiated Unregulated	Previous allocation of Corporate shared systems was based on arbitrary percentage allocation based on managerial estimate
Tendering and Contracts Business Systems	Supports the delivery of the objectives of the company, the relevant systems provide contract recording and performance tracking systems	Dollar Value of contracts per Division	Larger value contracts generally require more effort and attention	Standard Control Alternative Control Negotiated Unregulated	Previous allocation of Corporate shared systems was based on arbitrary percentage allocation based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Treasury Management Systems	Supports the delivery of the objectives of the company, the relevant systems provide financial market deal capture and settlements, liquidity management and market compliance tracking.	Percentage of Loan per division	Reflects level of debt, as the more a division has, the more it relies on the systems to manage it	Standard Control Alternative Control Negotiated Unregulated	Previous allocation of Corporate shared systems was based on arbitrary percentage allocation based on managerial estimate
Fleet Management Systems	Supports the delivery of the objectives of the company, the relevant systems provide fleet management data capture, asset management and reporting.	Total Number of light and heavy vehicles per division	Assist the Fleet Management Services group to manage the Aurora fleet of vehicles, both light and heavy.	Standard Control Alternative Control Negotiated Unregulated	Same allocation

Table 7 - Shared Cost Items

Distribution Business CAM Allocations

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Finance Team	Provides specialist DNSP-related finance support for both divisions	Number of FTEs	Reflects resource effort required to deliver services to each division.	Standard Control Alternative Control Negotiated Unregulated	Previously Network and Network services had separate finance teams fully allocated to the respective divisions (Network to Network management costs and Network services based on direct labour hours).

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Executive	Provides strategic direction and management for the Distribution Business as a whole	Number of FTEs	Reflects resource effort required to deliver services to each division.	Standard Control Alternative Control Negotiated Unregulated	Previously allocated fully to Network as no shared service provided to business.
Safety Team	Ensures that Aurora is able to comply with its health and safety obligations.	Number of FTEs	Reflects resource effort required to deliver services to each division.	Standard Control Alternative Control Negotiated Unregulated	Previously Network and Network services had separate safety teams fully allocated to the respective division (Network to Network Management and Network Services based on direct labour hours)
Fault and operations	Provides labour and associated costs manning switchboards and fault operators	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate
Customer team	Facilitates the customer dispute process and implementation of improved customer service strategies and administration of the customer charter.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Regulatory	Comprises costs associated with preparing regulatory submissions, information requests, responses, setting tariffs, revenue / pricing submissions.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate
Commercial Services	Provides commercial awareness and advice.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate
Asset management teams	Manages and plans distribution assets	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate
IT systems	Manages costs associated with strategic planning and IT architecture.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Executive teams	Provides executive team shared service across the two divisions (strategic vision, leadership).	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate
Market / meter Services	Metering programs including activities such as the management of SLAs with Retail and Network Services; the management of customer connection point assets, provision of data for both distribution; and retail customer billing.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate
Data Integrity Team	Maintaining and Records management on assets.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate
IT licence fees	Covers the cost of licensing fees.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs. Labour split between capital and operating based on managerial estimate

Cost Item	Nature of Cost Item	Nature of allocator	Reason for allocator	Category of Distribution Service	Consistency with previous approach
Maintenance contractor and consultancy costs	Covers the cost of maintenance and contractor consultancy costs.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network management costs
Other Network Management costs	Other costs not covered by above Network Management costs.	Total spend of direct costs including all other shared costs (allocated only to opex)	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Previously formed part of Network Management costs – operating and capital split based on managerial estimate
Projects group	Brings expertise to small and large scale projects to provide assurance that project expectations timeframes, costs, quality and safety will be met.	Direct labour hours	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Same method - allocation of overhead to direct work based on direct labour hours
Training Centre costs	Provision of training and education services to the distribution business and other parties	Direct labour hours	Reflects costs incurred in delivering categories of distribution services.	Standard Control Alternative Control Negotiated Unregulated	Same method - allocation of overhead to direct work based on direct labour hours

Attachment 5: List of Allocators

The following tables summarise the relevant cost drivers used to allocate the various Corporate and Shared Services Costs.

Table 8 - ICAM Operating expenditure allocators

ALLOCATOR	DEFINITION & CALCULATION	SOURCE
Weighted Average	Costs are allocated based on the weighted average of the total cost allocations that have a causality driver (i.e. excludes those costs allocated using a weighted average).	The calculation is performed on the ICAM worksheet 'Report'.
Unallocated (Corporate Unallocated)	Costs are not allocated. The substance of the underlying transaction causing the cost cannot be linked to any division or subsidiary at the time of preparing ICAM modelling.	The Senior Management Accountant, Group Finance provides the justification and unallocated cost value.
Number of FTE's	The number of FTE's that primarily work for a specific division or subsidiary.	To be updated
Volume of External Payment Invoices Processed	The transaction cost of external payment invoices over 12 months for a specific division or subsidiary.	Payment transactions are sourced from the Navision financial system. Internal transactions are excluded as performed by journal or purchase invoice. Data provided by the Team Leader Accounts Payable.
Occupied Floor Space	The total physical floor space (area) provided to a specific division or subsidiary. Floor space includes owned and leased sites. Land is excluded.	Facilities group.
Dollar Value of Contracts	The dollar value contracts for a specific division or subsidiary.	Contracts Manager and sourced from the Navision Financial system.
Debt Portfolio	The allocated debt value for a specific division or subsidiary.	Company Treasurer

ALLOCATOR	DEFINITION	SOURCE
Insured Property Asset Values	The insured asset values for a specific division or subsidiary. Insurance cover includes selected building assets, substation assets and minor assets. Leased property and land is excluded from the calculation.	Company Treasurer
Insurance – Liability Risk Assessment	A managerial risk estimate, the insured risk is determined by assessing risk factors of business size (number of people) and likelihood of specific risks occurring and resulting in a claim. The risk estimates are prepared with advice from Aurora's brokers.	Company Treasurer.
Insurance Other & Brokerage Risk Assessment	A managerial risk estimate of the businesses carrying the greatest insurance risk. (I.e. A high likelihood for claim and / or a requirement for analysis of potential risks based on risk mitigated versus uninsured risks.	Data provided by Company Treasurer.
Number of PCs	The total number of PCs connected to Aurora's communications network for a specific division or subsidiary.	ISG via Logica who manage the connectivity of PCs to the communications network.
Number of Vehicles	The total number of vehicles (light, heavy and plant) for a specific division or subsidiary.	Fleet Manager
CAPEX IT Program	The total dollar value of CAPEX for application systems that will primarily be utilised by a division or subsidiary.	Budgeted data, IT CAPEX program assumptions and the division and subsidiary primarily driving the CAPEX need. Data provided by the Senior Management Accountant, Group Finance.
Direct Allocation	Costs are allocated directly when Cost Categories or specific services are 100% attributable to only one division or subsidiary.	Refer Table 9 – next page

Table 9 - ICAM capital expenditure allocators

ALLOCATOR	DEFINITION	SOURCE
Applications per Division	Based on the total directly attributable application licensing and support costs to each division (excludes common applications)	Internal documentation for 2010-11 Applications to Retail and Network for ICAM
Direct Allocation – Network	100% allocation to Network	N/A
Direct Allocation – Network Services	100% allocation to Network Services	N/A
Direct Allocation – Alternative Control Services	100% allocation to alternate control services	N/A
Direct Allocation – Unregulated Services	100% allocation to unregulated services	N/A
Dollar Value of Contracts	The total dollar value of all current contracts for each division or subsidiary divided by the total value of contracts.	The Dollar value of contracts provided by the Contracts Manager and sourced from the Contract Management System.
Even split – Network and Retail	50% Network and 50% Retail	N/A
Even split – Network, Network Services and Retail	33.33% Network, 33.33% Network Services and 33.33% Retail	N/A
Number of FTE's	The total number of FTE for each division and subsidiary divided by the total FTE's.	Data provided by the PeopleSoft System Administrator based on records held in PeopleSoft.
Number of Landlines	The number of landlines used by a division or subsidiary divided by the total.	Based on Aurora Landline records held in the Volt system. Data provided by ISG Infrastructure Manager.
Number of Light Vehicles	The number of light vehicles hired to a division and subsidiary	Vehicles groups 01 - 22 listed in

ALLOCATOR	DEFINITION	SOURCE
	divided by the total number of hired light vehicles.	internal business documentation.
Number of PC's	The number of desktop and laptop personal computers for a division and subsidiary connecting to Aurora's communications networks divided by the total number of PC's.	ISG Infrastructure Manager provided number of PC. The statistic includes all desktops, laptops and tough books.
Number of Purchase Cards	The total number of purchasing cards for a division and subsidiary over a 12 month period divided by the total number of cards.	The number of cardholders are provided by the Navision System Administrator and sourced from the Navision financial system.
The Total Number of Light and Heavy Vehicles	The number of all vehicles hired to a division and subsidiary divided by the total number of hired vehicles.	Vehicles groups 01 - 97
Number of Heavy Vehicles	The number of heavy vehicles used by each division (100% Network).	Vehicles groups 23 - 97
Percentage of Loan	The percentage of total modelled loan amount assigned to a division or subsidiary.	The Loan percentage is based on authorised balance sheet modelling, the outputs of which are used for Board reporting of financial ratios. Data provided by the Company Treasurer.
Volume of External Payment Invoices	The total volume of external payment invoices for a division and subsidiary over a 12 month period divided by the total transactions.	The transaction volumes are provided by the Navision System Administrator and sourced from the Navision financial system.
Volume of Finance System Transactions	The total number of General Ledger transactions generated by a division or subsidiary divided by the total number of transactions.	The transaction volumes are provided by the Navision System Administrator and sourced from the Navision financial system General ledger Entry tables.

Table 10 - Other allocators

ALLOCATOR	DEFINITION & CALCULATION	SOURCE
Distribution Business Shared Costs - Number of FTE's	The number of FTE's that primarily work for a the division divided by the total number of FTEs in the Distribution Business in the previous year.	Navision financial system.
Network Services Management – direct labour hours.	The number of direct labour hours allocated to a service classification divided by the total number of direct labour hours in the Program of Works.	WASP
Network Management – total spend of Direct Costs including allocation of other shared costs.	The total spend of direct costs (including the allocation of Shared Services and Corporate; Distribution Business; and Network Services shared costs) attributed to opex service classifications divided by the total spend of direct costs (including the allocation of Shared Services and Corporate; Distribution Business; and Network Services shared costs) attributed to capex and opex service classifications.	WASP

Attachment 6: Worked Example of Shared Services Cost Allocation

The table below shows the allocation method and the scale of costs attributed to the operating Divisions. The People & Culture Division is used as an example to demonstrate the ICAM allocations to the Network Division.

Table 11 – Shared Services Allocation – Opex

Division	Group/Team	Comments	Methodology	Corporation Unallocated	Retail	Network	Network Services	Telco	Total
People & Culture	Exec Mgmt	Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
	OH&S	Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
	Payroll & Remuneration	Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
	Employee Relations	Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
		Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
	Training & Development	Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
		Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
		Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
		Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
		Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%
		Allocate on people numbers	FTE	0.0%	14.0%	15.3%	69.5%	1.1%	100.0%

Attachment 7: Causal basis for ICAM allocations

The ICAM uses a suite of 14 operating expenditure allocators and 17 capital expenditure allocators to allocate costs between each of Aurora's divisions and subsidiaries. The ICAM broadly allocates:

- Shared Services costs using causal cost drivers, which reflects the generally variable nature of these costs; and
- Corporate costs using non-causal cost drivers, which reflects the generally fixed nature of these costs as well as corporate governance requirements.

Aurora engaged expert consultants Deloitte, to review its ICAM allocators to ensure that shared costs were being allocated using the most appropriate methodologies. Broadly, this review assessed the strength of the relationship between the consumption of each cost item and its associated allocator, with regard to the following:

- a definition of a causal relationship as "one where it can be reasonably inferred that a change in the driver causes a corresponding change in the magnitude of the cost"; and
- whether the driver is accepted in industry, both in Australia and internationally.

Deloitte found that the majority of causal allocators had strong causal relationships with the respective cost items. Where weak relationships were identified (in only two instances), Aurora has since implemented the recommended changes. Aurora thus considers that a strong causal relationship between each causal allocator and the cost item to have been established.

The review also confirmed that Aurora's ICAM uses just one non-causal allocator, being the weighted average of the total cost allocations that have a causality driver. This was deemed to be an effective non-causal allocator because it leverages causal allocators and the justification for the use of this allocator, in accordance with Guidelines requirements, is discussed below.

Weighted Average

Clauses 2.2.4(c)(3) of the Guidelines provide that where a shared cost is immaterial or a causal relationship cannot be established, Aurora may use a non-causal allocator. In this event Aurora must submit a supporting work paper to the AER documenting the following in relation to each of these non-causally allocated shared costs:

- the basis of allocation;
- the reason chosen for the basis;
- a demonstration that the shared cost is immaterial or an explanation of why on causal relationship could be established without undue cost or effort; and
- a numeric quantity or percentage of the non-causal allocator applied to each category of distribution service and in total.

Accordingly the following sections address each of these points in relation to the use of the weighted average to allocate the majority of Corporate costs and a range of other costs, as set out in Attachment 4.

Basis of the allocation

The weighted average allocator is used in the ICAM to allocate costs on the basis of the weighted average of the total cost allocations that have a causality driver, excluding those costs that are allocated using a weighted average. Generally the ICAM uses the weighted average to allocate fixed costs, such as those relating to Corporate activities.

Justification

Aurora considers that the weighted average is the most appropriate allocator for its costs allocated on a non-causal basis. The key advantage is that it leverages all other causal indicators and is therefore based on sound causal data, which is in turn underpinned by reliable and objective data sources. Aurora therefore considers the weighted average allocator:

- to be an equitable allocator as it leverages the strong casual relationships between cost drivers and cost types; and
- is an effective predictor for the size, complexity and resource effort undertaken within a division.

As such the weighted average reflects the allocation of resource effort in pursuing the objectives and priorities of the respective Aurora divisions, and allocates costs on this basis.

The use of the weighted average to allocate costs on a non-causal basis was assessed as part of the Deloitte review of the ICAM. The review found that where costs could not be allocated on a causal basis, costs were most appropriately allocated on the basis of operating budget or weighted average.

Aurora considered that allocation on the basis of operating budget was not as appropriate as the weighted average because differences in input costs may not truly reflect the consumption of corporate services. For instance, this was an issue where divisions with significantly larger operating budgets, such as Network Services, consume a relatively small allocation of corporate costs. Aurora considered that it would not be equitable for larger divisions to incur costs on this basis. Further, Aurora also considered that Operating budgets are driven by the efficiency of operations more so than by the use of Corporate services, and as such would not deliver an equitable allocation.

Explanation of why no causal relationship could be established without undue cost and effort.

Aurora considers that it would be extremely difficult to establish a causal relationship between indirect cost items and the associated allocators for the following reasons:

- Significant resources would be required to monitor, record and analyse Corporate and Shared Services activities because it would require a detailed, day-to-day, review of where and when these costs were being consumed. Given that a medium study would be required to average out these the findings over a suitable time period, this would be a medium term resourcing requirement;

- Such a study would require the completion of timesheets by Aurora employees. As this is not currently undertaken this would introduce a significant administrative burden on Aurora's workforce; and
- In the event that resources were committed to monitoring consumption of indirect costs the findings would be open to query given the subjective nature of assessments and inter-rater variability. It is likely that future studies would result in diverse outcomes and that it would be extremely difficult to replicate cost allocations if requested by the AER.

Attachment 8: Network Services - hourly rate calculation.

Network Services' indirect business operating expenses, Aurora's ICAM costs, depreciation and finance expenses (but not its direct plant, equipment and material costs) are recovered through the labour rate by applying a labour rate overhead on an hourly basis.

The total cost derived by applying the methodology detailed below is divided by the calculation of total direct hours to calculate the total hourly rate for the provision of services to Network division.

If a material variance occurs between Network Services' forecast and actual costs, an adjustment will be made to costs already allocated to distribution services to align them with actual amounts.

Table 12 - Network Services - hourly rate calculation.

Cost Type	Comments	Annual Budgeted Cost	/	Forecast billable hours	=	Hourly rate
Direct Labour – Billable hours	Total billable budget salaries and wages including all labour on costs.	10,000,000	/	50,000	=	200.00
Direct Labour – Non-Billable hours	The balance of budget billable salaries and wages including all labour on costs applicable to the non-billable hours plus all expenses applicable to direct labour e.g. training costs, personal protective equipment, travel, accommodation and meals.	1,000,000	/	50,000	=	20.00
Network Services – Indirect Costs	Divisional overhead activities e.g. commercial services, people services, safety, audit and work standards and compliance activities.	1,000,000	/	50,000	=	20.00
ICAM	Network share of corporate and shared services	200,000	/	50,000	=	4.00
Distribution Shared Expenses	Network and Network Services shared costs e.g. Distribution Finance Team, the Distribution Executive, and the Distribution Safety Team	50,000	/	50,000	=	1.00
Depreciation (External work only)	Annual asset depreciation	50,000	/	50,000	=	1.00
Interest Expenses (External work only)	Business financing costs, work capital and asset financing.	50,000	/	50,000	=	1.00
Total		**12,350,000**	**/**	**50,000**	**=**	**247.00**

Attachment 9: BMS Components and costing systems flow

The figure below shows the components that comprise Aurora's financial costing systems flow.

Figure 3 – BMS Components and costing systems flow