



Final decision

Ausgrid

Revised Cost Allocation Method

May 2014

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Shortened forms

AER	Australian Energy Regulator
CAM	Cost Allocation Method
Distributor, DNSP	Distribution Network Service Provider
IPART	Independent Pricing and Regulatory Tribunal
NEL	National Electricity Law
NEM	National Electricity Market
rules	National Electricity Rules
our guidelines	Distribution Cost Allocation Guidelines

1 Introduction

1.1 Summary

On 29 November 2013, Ausgrid submitted revisions to its Cost Allocation Method (CAM)—see Appendix 1 to this paper. A CAM is used to separately account for the costs of providing regulated electricity distribution services from other unregulated services the distributor might provide. Ausgrid submitted its proposed CAM in anticipation of a new regulatory control period commencing 1 July 2014.

We assessed Ausgrid's proposed CAM, assisted with independent advice provided by KPMG. We have determined that Ausgrid's proposed CAM:

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

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

1.1.1 Background

We are responsible for regulating revenues of electricity distribution businesses in the National Electricity Market (NEM) in accordance with the NEL and the rules. Chapter 6 of the rules deals with economic regulation of electricity distribution services.

Cost allocation concerns attributing a regulated business's costs, or allocating shared costs, between distribution service categories and non-regulated business sections. The different service categories are defined in the NEL and the rules. The CAM allocates costs between:

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

In our distribution determinations, we classify distributor services according to the above categories. Cost allocation between service classifications must accurately represent costs incurred in providing those services. We rely upon historical and forecast costs allocated in accordance with approved CAMs to determine prices charged, or revenues raised, by distributors.

Ausgrid's previous CAM was prepared and approved in 2008 under transitional arrangements for the 2009-14 regulatory control period. These arrangements related to Ausgrid's transition from a jurisdictional regulatory framework to the national framework we regulate. Those transitional arrangements cease to apply on 31 June 2014. For the new regulatory control period, beginning 1 July 2014, Ausgrid must have an approved CAM consistent with Chapter 6 of the rules and our guidelines. This is the first time Ausgrid must establish a CAM consistent with our guidelines.

Distribution regulatory proposals, or the regulatory arrangements proposed by distributors to us for a particular regulatory control period, must comply with an approved CAM.

Changes to the rules released by the Australian Energy Market Commission (AEMC) in November 2012 establish for the NSW (and the ACT):

- a one year transitional regulatory control period' beginning 1 July 2014¹
- a four year 'subsequent regulatory control period', beginning 1 July 2015.²

Ausgrid submitted its CAM in anticipation of the subsequent regulatory control period. The CAM will be used by Ausgrid to develop its regulatory proposal, which must be submitted to us by 31 May 2014.

Ausgrid's CAM will remain relevant to its statutory accounts, reporting and regulatory proposals until such time as we approve a further CAM variation.

¹ Clause 11.55.1 (definitions) of the Rules.
² Ibid.

2 The Rule requirements & assessment process

2.1 The Rule requirements

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

2.2 Assessment process

Ausgrid submitted an earlier iteration of its proposed CAM on 24 September 2013. We assessed this proposed CAM, assisted by KPMG. Resulting from this assessment, Ausgrid was provided with feedback that relatively minor changes were required to permit the CAM's approval. Feedback was provided in written form, enhanced by discussions between AER staff, KPMG and Ausgrid staff.

As a consequence of the above process, Ausgrid submitted a revised proposed CAM on 29 November 2013. This has again been assessed by AER staff with assistance from KPMG. The results of KPMG's assessment of Ausgrid's revised proposed CAM are set out in its report—Attachment 2 to this paper.

2.3 Ausgrid's CAM revisions and structure

As noted above, this is the first time that Ausgrid has been required to submit a proposed CAM consistent with our guidelines. Notwithstanding necessary changes to its previous CAM, Ausgrid has sought to retain significant consistency between CAMs across regulatory control periods. Therefore, Ausgrid based its proposed CAM on its previous CAM, with revisions to the allocation of corporate and other costs shared amongst service classifications. Ausgrid also revised its CAM to reflect changes in its corporate structure.

Ausgrid's CAM sets out its cost recording and aggregation process. Ausgrid initially records cost objects and cost elements. Once identified as operating costs or capital costs, these are directly attributed or allocated to standard control, alternative control and unclassified services. Costs attributed or allocated to standard control services are then further disaggregated between distribution and transmission standard control services.³ The cost allocators are provided in Ausgrid's proposed CAM within tables 3 and 5.

³ Ausgrid operates assets defined as 'dual function assets' which provide 'transmission standard control services'. This is in addition to providing distribution standard control services.

3 Consistency with the Cost Allocation Guidelines

This section sets out our assessment of Ausgrid's proposed CAM against the requirements of our guidelines.

3.1 Assessment

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

Table 1: comparison of proposed CAM with clause 3.2(a) of Cost Allocation Guidelines

Clause 3.2(a)	Findings & CAM references
(1) A version history and date of issue for the document	Compliant. See cover and contents page.
(2) A statement of the nature, scope and purpose of the document and the way in which it is to be used by the distributor.	Compliant. See section 2.
(3) Details of the accountabilities within the distributor for the document in order to set out clearly: A. the distributor's commitment to implementing the CAM; and B. responsibilities within the distributor for updating, maintaining and applying the CAM and for internally monitoring and reporting on its application.	Compliant. See section 3.
(4) A description of the distributor's corporate and operational structure to enable the AER to understand how the distributor is organised to provide its distribution services.	Compliant. See section 4.
(5) A specification of the categories of distribution services that the distributor provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided.	Compliant. See section 5.
(6) The DNSP's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of the Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.	Compliant. See section 6.
(7) A description of how the DNSP will maintain records of the attribution or allocation of costs to, or between, categories of distribution services to enable any such attribution or allocation to be: A. demonstrated to the AER, in accordance with clause 5.2 of these Guidelines; and	Compliant. See section 7.

B. audited or otherwise verified by a third party, including the AER, as required.

(8) A description of how the DNSP will monitor its compliance with the CAM and the Guidelines.

Compliant. See section 8.

(9) Details of the proposed date on which the CAM will commence, having regard for clause 4.1(d) of these Guidelines.

Compliant. See section 9.

4 Decision

We consider the CAM proposed by Ausgrid gives effect to and is consistent with our guidelines and the rules. We therefore approve, under clause 6.15.4(c) of the rules, Ausgrid's proposed CAM.

Appendix A: Ausgrid's CAM

Ausgrid's CAM is attached as a separate document. Digital copies are available at www.aer.gov.au.

Appendix B: KPMG's review of Ausgrid's CAM

KPMG's review of Ausgrid's CAM is attached as a separate document. Digital copies are available at www.aer.gov.au.