



Final decision

**CitiPower and Powercor
Revised Cost Allocation Methods**

17 October 2014

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Shortened forms

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

1 Introduction

1.1 Summary

On 23 April 2014, CitiPower and Powercor submitted revisions to their respective Cost Allocation Methods (CAMs)—see Appendix A and Appendix B to this paper. CitiPower and Powercor are separate licensed entities providing distribution services in Victoria. However, they share a common ownership, management and staffing structure. Consequently, the applications to amend the respective CAMs are identical in all material respects. However, for our decision we have assessed each CAM individually as each business unit holds separate registration. A CAM is used to separately account for the costs of providing electricity distribution services, including from other services the Distribution Network Service Provider (distributor) might provide. CitiPower/Powercor submitted their proposed revised CAMs in anticipation of a new regulatory control period commencing 1 January 2016.

We have determined that CitiPower'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 (guidelines).¹

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

We have determined that Powercor'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 (guidelines).¹

Accordingly, we have approved Powercor'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

¹ AER, *Electricity distribution network service providers – Cost allocation guidelines*, June 2008.

- negotiated distribution services
- unclassified, or unregulated, services.

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

Both CitiPower's and Powercor's previous CAMs were prepared and approved in 2010 under transitional arrangements applicable to Victorian distributors for the 2011–15 regulatory control period.² These arrangements related to CitiPower's transition from a state-based regulatory framework, administered by the Essential Services Commission Victoria (ESCV), to the national framework which we regulate. The CAMs were further amended in October 2013 (i.e. to Version 8) to address a mismatch in service classifications.

Distribution regulatory proposals, or the regulatory arrangements proposed by distributors to us for a particular regulatory control period, must comply with an approved CAM. CitiPower and Powercor submitted their proposed revised CAMs in anticipation of the 2016–20 regulatory control period. The revised CAMs will be used by CitiPower and Powercor respectively to develop their individual regulatory proposals, which must be submitted to us by 31 April 2015.

Following our approval, Version 8 of CitiPower's and Powercor's CAMs will remain relevant to their respective statutory accounts, reporting and regulatory proposals until 31 December 2015. Version 9 will take effect from 1 January 2016, unless we approve a further CAM variation for each business.

² NER, clause 11.16.3.

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

CitiPower and Powercor submitted a draft of their proposed CAMs on 23 April 2014. We assessed the draft proposed CAMs. Resulting from this assessment, CitiPower/Powercor was provided with feedback that minor corrections were required to permit approval of the CAMs. These related to the effective date and a minor typographical change. Feedback was provided verbally by AER staff to CitiPower/Powercor staff. In response, CitiPower/Powercor made the amendments and provided updated versions of the CAMs.

The results of our assessments of CitiPower's and Powercor's revised proposed CAMs against the requirements of our guidelines are set out in section 3 of this paper.

2.3 CitiPower's and Powercor's CAM revisions and structure

CitiPower and Powercor sought AER approval of the attached amended Cost Allocation Methods (CAMs) under clause 6.15.4(f) of the National Electricity Rules. They state that the CAMs were amended solely to accommodate a change in corporate overhead capitalisation policy.

The Businesses have the same statutory overhead capitalisation policies and there is no difference in their statutory and regulatory corporate overhead accounting policies. The Businesses intend to change their statutory and regulatory overhead capitalisation policies from 1 January 2016 which necessitates an amendment to their CAMs³

The two businesses now intend to expense corporate overheads for both statutory and regulatory accounting purposes. They are planning to implement the change in overhead capitalisation policy from 1 January 2016 to coincide with the start of the next regulatory period and the start (for them) of a new financial year.

Currently corporate overheads are allocated directly in the corporate accounting and recording system, which the businesses refer to as the SAP system. With corporate overheads no longer directly attributed to direct costs via the SAP system, a revised method is required to allocate corporate overheads between categories of distribution service. The businesses now propose to allocate corporate overheads between categories of distribution service such that the amount of corporate overheads allocated between categories of distribution service remains unchanged. The consequence of this is that it would be reported as operating expenditure rather than capital and maintenance expenditure.

³ CitiPower/Powercor letter, 23 April 2014

3 Consistency with our cost allocation guidelines

This section sets out our assessment of CitiPower's and Powercor's proposed CAMs against the requirements of our guidelines.

3.1 CitiPower Assessment

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

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

Clause 3.2(a)	Findings & CAM references
(1) A version history and date of issue for the document	Compliant. See page 1.
(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 3.
(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 sections 4-6.
(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 sections 7-8.
(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 sections 9-10.
(6) The distributor's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of the Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.	Compliant. See section 11.
(7) A description of how the distributor will maintain records of the attribution or allocation of costs to, or between, categories of distribution services to enable any such attribution or allocation to be: A. demonstrated to the AER, in accordance with clause 5.2 of these Guidelines; and B. audited or otherwise verified by a third party, including the AER, as required.	Compliant. See section 12.
(8) A description of how the distributor will monitor its compliance with the CAM and the Guidelines.	Compliant. See section 13.
(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 4.

3.2 Powercor Assessment

The format and content of CAMs are regulated by clause 3.2(a) of our guidelines. Table 2 compares Powercor's proposed CAM against the requirements of clause 3.2(a).

Table 2: comparison of proposed CAM with clause 3.2(a) of our Cost Allocation Guidelines

Clause 3.2(a)	Findings & CAM references
(1) A version history and date of issue for the document	Compliant. See page 1.
(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 3.
(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 sections 4-6.
(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 sections 7-8.
(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 sections 9-10.
(6) The distributor's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of the Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.	Compliant. See section 11.
(7) A description of how the distributor will maintain records of the attribution or allocation of costs to, or between, categories of distribution services to enable any such attribution or allocation to be: A. demonstrated to the AER, in accordance with clause 5.2 of these Guidelines; and B. audited or otherwise verified by a third party, including the AER, as required.	Compliant. See section 12.
(8) A description of how the distributor will monitor its compliance with the CAM and the Guidelines.	Compliant. See section 13.
(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 4.

4 Decisions

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

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

Appendix A: CitiPower's CAM

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

Appendix B: Powercor's CAM

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