SA Power Networks Cost Allocation Method

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AUSTRALIAN ENERGY REGULATOR

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Contents

Shortened forms

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

1 Introduction

1.1 Summary

On 20 December 2017 SA Power Networks submitted amendments to its approved Cost Allocation Method (CAM) to the AER for approval — see Appendix A to this paper. SA Power Networks provides electricity distribution services in South Australia. A CAM is used to separately account for the costs of providing electricity distribution services, including from other services the distributor might provide. SA Power Networks has proposed its CAM amendments take effect from 1 February 2018.

We have determined SA Power Networks' proposed amended 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 SA Power Networks' proposed amended CAM under clause 6.15.4(c) of the rules.

1.2 Background

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

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

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

A further category of services is identifiable—non–distribution services. We do not, nor are we able to, regulate these services.

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

Distribution regulatory proposals, or the regulatory arrangements proposed by DNSPs to us for a particular regulatory control period, must comply with an approved CAM. The amended CAM subject to this decision paper will be used by SA Power Networks to develop its distribution regulatory proposals. SA Power Networks will also use its CAM to report to us annually for its regulated distribution business.

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

2 Rule requirements and assessment

2.1 The rule requirements

For DNSPs:

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

2.2 Assessment process

SA Power Networks informally submitted a pre-draft copy of its proposed CAM on 18 December 2017. Upon preliminary assessment, we advised SA Power Networks that the CAM was approvable but we notified SA Power Networks of a small number of minor presentational issues.

As a result of our feedback on the informal iteration of its CAM, SA Power Networks formally submitted a revised iteration of the CAM for our approval. Appendix 2 of the CAM provides a detailed compliance matrix against the requirements of our guidelines and the rules.

2.3 SA Power Networks CAM proposal and structure

SA Power Networks sought AER approval of the attached CAM under clause 6.15.4 (c) and (d) of the rules. The CAM provides details on corporate structure, attribution of direct costs, allocation of indirect costs, cost recording and record keeping systems.

Compliance with ring-fencing obligations

SA Power Networks proposed to amend its existing approved CAM primarily to reflect its organisational changes made in response to our Electricity Distribution Ring–fencing Guideline[1] (Ring–fencing Guideline). The objective of our Ring–fencing Guideline is to promote the National Electricity Objective by providing for the separation of the provision of regulated services by a DNSP from the provision of its other services by it, or by its affiliated entities. The purpose of this functional separation is to mitigate risk of cross subsidies between regulated services on the one hand and, on the other, unregulated services provided into contestable markets. After initially being published in December 2016, the amended version of our Ring–fencing Guideline will take full effect from 1 January 2018 (calendar year 2017 was considered a transitional year).

[1] AER, *Ring Fencing Guideline — Electricity Distribution (version 2)*, October 2017.

As described by SA Power Networks' covering letter[2], its proposed CAM amendments show its affiliate, Enerven, as providing all non-distribution services on behalf of SA Power Networks. In other ways also, the amended CAM reflects the new weighting given to the difference between unregulated distribution services and non-distribution services. Whereas in the past there was little to no difference in the regulatory treatment of these two types of services, under our Ring-fencing Guideline a DNSP may only provide distribution services from within its legal entity. Non-distribution services must be provided by a ring-fenced affiliate which is a separate legal entity from the DNSP (which may be owned by the DNSP in part or in whole).[3]

Other issues

Other amendments to SA Power Networks' existing approved CAM are relatively minor. They include updated terminology to reflect that used in SA Power Networks' internal record keeping systems. Also, descriptions of service groups no longer list individual services and their service classifications—we support this approach as it precludes the need to process further CAM updates in response to service classification changes.

In terms of CAM changes to cost allocation approaches, payroll costs, accounts payable costs and printing costs have been merged with costs of a similar nature. In most cases the shared cost allocator, or driver, applied to the newly merged costs is the same as was applied to the separately identified costs. Other changes to cost allocation are insignificant.

Overall, we consider impacts of the CAM amendments on SA Power Networks' reported regulatory information will be trivial in nature. It is, nonetheless, appropriate for SA Power Networks to update its CAM given its organisational changes undertaken in response to its new ring-fencing obligations.

A diagram of SA Power Networks' corporate structure is provided in the amended CAM.

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2 SA Power Networks, *SA Power Networks Cost Allocation Method Update*, December 2017.

3 NER chapter 11 defines a distribution service as: a service provided by means of, or in connection with, a distribution system.

3 Consistency with our Cost Allocation Guidelines

This section sets out our assessment of SA Power Networks' proposed amended CAM against the requirements of our Cost Allocation Guidelines.

3.1 SA Power Networks CAM assessment

The format and content of SA Power Networks' CAM are regulated by clause 3.2(a) of our Cost Allocation Guidelines. Table 1 compares SA Power Networks' proposed CAM against the requirements of clause 3.2(a). It also references relevant NER provisions and elements of our Ring-fencing Guideline.

Table 1 CAM assessment table

General obligations

Rules	CAG	Requirements	Addressed
6.15.4(a)	1.5, 3.1(a)	DNSP must develop a proposed CAM for submission to the AER	Compliant
6.15.4(b)	1.5, 3.1(b)	DNSP's proposed CAM must give effect to and be consistent with the CAG	Compliant
	5.4	DNSP must maintain current copy of approved CAM on its website	CAM, p.4

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CAG	Requirements	Addressed
3.2(a)(1)	Version number	CAM, p.1
3.2(a)(2)	DNSP's commitment to history and date of issue	CAM, p.1
3.2(a)(3)	Statement of nature, scope and purpose of document and way it is to be used	CAM, p.3
3.2(a)(3)A	Accountabilities for implementation	CAM, p.5
3.2(a)(3)B	Responsibilities for updating, maintaining and applying document and for internally monitoring and reporting its application	CAM, p.5

CAG	Requirements	Addressed
3.2(a)(4)	Description of corporate and operational structure	CAM, p.5
3.2(a)(5)	Specification of service categories and types of persons to whom services provided	CAM, p.7
3.2(a)(6)	Principles and policies for attributing costs to, and allocating costs between, categories of distribution services in accordance with clause 2.2 of CAG	CAM, section 6, pp.8–31
3.2(a)(7)	Description of how will maintain records of attribution and allocation	CAM, p.32
3.2(a)(8)	Description of how will monitor compliance with CAM and Guidelines	CAM, p.32
3.2(a)(9)	Commencement date	CAM, p.32

Cost allocation principles and policies

Rules	RFG	CAG	Requirements	Addressed
6.15.2(1)	3.2.2(a)	2.2.1(a)	Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable: • AER to replicate reported outcomes • DNSP to demonstrate that it is meeting requirements	Compliant
		2.2.1(b)(1)	Include specified information on directly attributable costs to enable AER to replicate reported outcomes	Compliant
		2.2.1(b)(2)	Include specified information on shared costs to enable AER to replicate reported outcomes	Compliant
6.15.2(2)		2.2.2	Attribute costs directly to, or allocated costs between, categories of distribution services based on substance of underlying transaction or event not legal form	Compliant
6.15.2(3)(i)		2.2.3	Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service	Compliant

Rules	RFG	CAG	Requirements	Addressed
6.15.2(3)(ii)		2.2.4	Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that: • Shared cost is immaterial • Causal relationship cannot be established without undue cost or effort in which case may use non-causal allocator in specified circumstances	Compliant
6.15.2(4)			Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator	Compliant
6.15.2(5)		2.2.5	Do not allocate the same cost more than once	Compliant
6.15.2(6)		2.2.6	Detailed principles, policies and approach used to attribute costs directly to, or allocated costs between, categories of distribution services must be consistent with the Distribution Ring Fencing Guidelines	Compliant
6.15.2(7)		2.2.7	Costs that have been attributed or allocated costs to distribution services must not be reattributed or reallocated to another service during the regulatory control period	Compliant

4 Decisions

We consider the CAM amendments proposed by SA Power Networks give effect to and are consistent with our guidelines and the rules. We therefore approve, under clause 6.15.4(c) of the rules, SA Power Networks' proposed CAM amendments.

Appendix A: SA Power Networks' CAM

SA Power Networks' CAM is attached as a separate document. Digital copies are available at www.aer.gov.au.