



AusNet Electricity Distribution

Revised Cost Allocation Method

AER Final Decision

November 2019

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Shortened forms

Table text heading

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 Market Rules
guidelines	Distribution Cost Allocation Guidelines

1 Introduction

1.1 Summary

On 25 September 2019 AusNet Electricity Services Pty Ltd (AusNet) submitted a revised Cost Allocation Method (CAM) for its Victorian distribution system — see Appendix A to this paper.¹ AusNet provides electricity distribution services in north-east metropolitan Melbourne and across northern and eastern Victoria.² A CAM is used to separately account for the costs of providing electricity distribution services, including from other services the distributor might provide. AusNet proposed its revised CAM take effect from 1 January 2020.

We have determined AusNet'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 (distribution guidelines).

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

1.2 Background

The AER is responsible for regulating revenues of the electricity distribution businesses in Victoria 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 Victoria.

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 services, comprising:
 - standard control services
 - alternative control services
- negotiated distribution services
- unclassified, or unregulated, 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 cost allocation between service classifications accurately and fairly represents costs incurred in providing those services. We rely upon historical and forecast

¹ AusNet, *Cost Allocation Method*, September 2019.

² AusNet also provides electricity transmission and gas distribution services in Victoria.

costs allocated in accordance with an approved CAM to determine prices charged, or revenues raised, by distributors such as AusNet.

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 revised CAM subject to this decision paper will be used by AusNet to develop its distribution regulatory proposals. AusNet will also use its revised CAM to report to us annually for its distribution regulated business.

Following our approval, AusNet's revised CAM will remain relevant to its statutory 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

AusNet informally submitted a revised CAM on 27 June 2019. We assessed the draft proposed CAM. Resulting from this assessment AusNet was provided with feedback that some corrections were required to permit approval of the CAM.

AusNet formally submitted its amended revised CAM on 25 September 2019 for our approval. The results of our assessment of AusNet's amended revised CAM against the requirements of our guidelines are set out in section 3 of this paper.

2.3 AusNet CAM revisions and structure

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

AusNet submitted that the main driver for amending its CAM is a change in its internal cost allocation system for shared costs.³ Namely, it no longer uses activity based costing (ABC) surveys to allocate shared costs to service categories.

We consider the replacement of ABC surveys with more transparent cost allocators is a material improvement in AusNet's cost allocation approach. We raised this issue with AusNet at the time of assessing the current approved iteration of its CAM. At that time AusNet sought our approval to postpone its reforms to replace the ABC surveys, but undertook to undertake these changes and submit a new CAM iteration for our consideration. We agreed to AusNet's proposal.⁴ The CAM revision we are now assessing is the culmination of that agreement.

³ AusNet, *Cost Allocation Method*, September 2019, p.4.

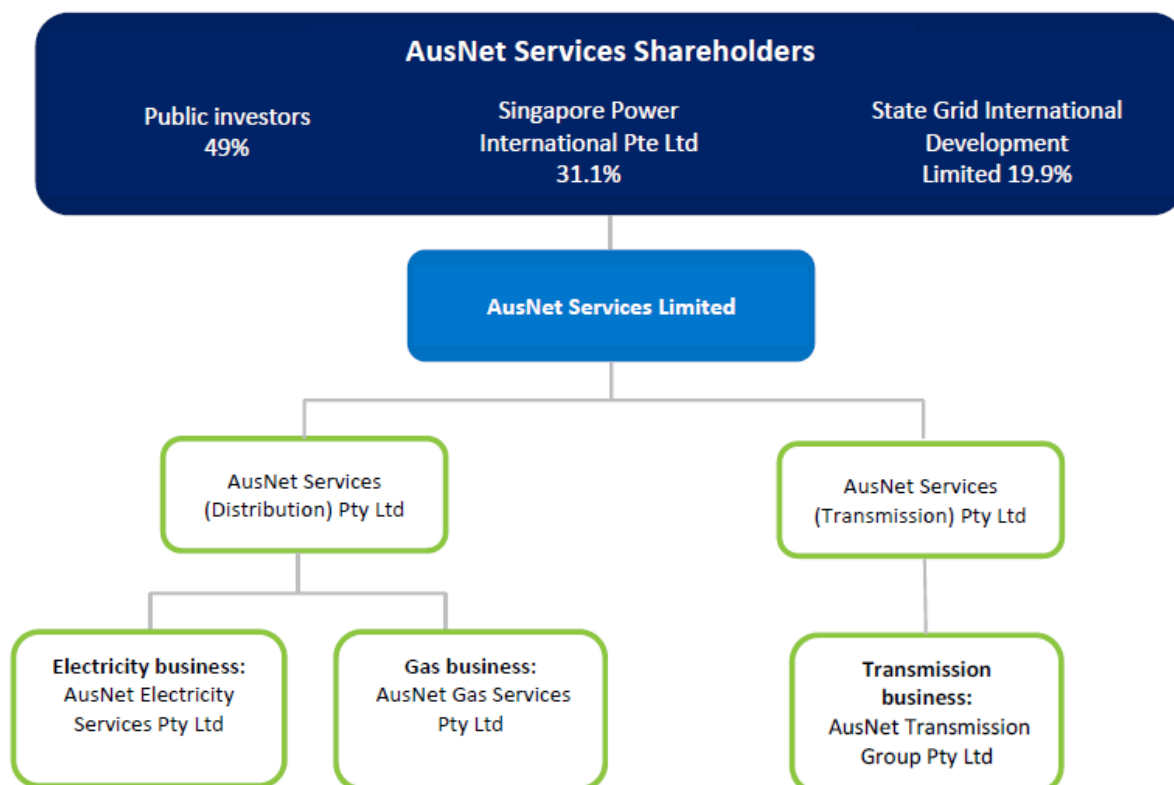
⁴ AER, *Final decision: AusNet Cost Allocation Method*, October 2018.

AusNet submitted that its substitution of new allocators for the previous ABC surveys did not have a significant impact on the quantum of costs allocated from its corporate group to electricity distribution.⁵

AusNet submitted that a further driver for amending its CAM are internal operational structure changes.⁶

At the highest level AusNet’s corporate structure is as set out in Figure 1. AusNet belongs to the AusNet Services corporate group.

Figure 1 AusNet Services corporate structure



The operational structure of AusNet Services (or AusNet for this paper), responsible for electricity distribution, can be summarised as:⁷

- regulated energy services
- operations and services
- Mondo Power
- corporate groups.

An expanded description is available in AusNet’s proposed CAM.

⁵ AusNet, *Cost Allocation Method*, September 2019, p.4.

⁶ AusNet, *Cost Allocation Method*, September 2019, p.4.

⁷ AusNet, *Cost Allocation Method*, September 2019, p.11.

3 Consistency with our Distribution Cost Allocation Guidelines

This section sets out our assessment of AusNet's proposed CAM against the requirements of our Distribution Cost Allocation Guidelines (guidelines).

3.1 AusNet CAM assessment

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

Clause 3.2(a) of the AER's Distribution Cost Allocation Guidelines	CAM references
(1)-(2) A version history and date of issue for the document	Compliant. See page 2.
(3) 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 page 5.
(3) Details of the accountabilities within the distributor for the document in order to set out clearly: <ul style="list-style-type: none"> 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 pages 6-7.
(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 pages 10-11.
(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 page 12.
(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 pages 13-23.
(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: <ul style="list-style-type: none"> 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 	Compliant. See page 8.

required.

(8) A description of how the distributor will monitor its compliance with the CAM and the Guidelines. Compliant. See page 7.

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