

AusNet Electricity Services Pty Limited

Electricity Distribution Cost Allocation Method

June 2018 (draft)

Appendix 1A

Version History

Version Number	Issue Date	Details of Amendment
1.0	December 2010	Approved Public version
2.0	September 2014	Reflected changes in corporate and organisational structure, chart of accounts
2.1	November 2014	Reflects Service Classification set out in Final Framework and Approach for the Victorian Electricity Distributors (24 October 2014)
3.0	June 2018	Reflected changes in the corporate and organisational structure and Final Framework and Approach for the Victorian Electricity Distributors

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1 Background

In accordance with the National Electricity Rules (NER), AusNet Services must submit a proposed Cost Allocation Method (CAM) to the Australian Energy Regulator (AER) for approval.

This document sets out the method used by AusNet Services for the attribution and allocation of costs to, and between, categories of electricity distribution services. The methodology has been developed in accordance with the requirements of the NER and the AER's Cost Allocation Guidelines for Victorian Electricity DNSPs (the Guidelines), dated 26 June 2008.

The NER allows AusNet Services to amend its approved CAM, subject to the requirements contained in Clause 4.2 of the Guidelines.

There have been changes to AusNet Services' corporate and organisational structure, as well as the amendments to the categories of distribution services provided (TH – is this ok to say? Ring fencing). While these changes have not had a significant impact on the quantum of costs allocated to Electricity Distribution, to ensure the relevance of the CAM and to effectively promote the cost allocation principles, AusNet Services has revised its CAM subject to the AER's approval.

The service classifications presented in section 3.3 of this CAM are consistent with AusNet Services' proposed service classifications for the 2021 to 2025 regulatory periods. The CAM will be updated if these service classifications are inconsistent with the AER's final decision for the 2021 to 2025 distribution determination to apply to AusNet Services.

2 Application and Maintenance of the Cost Allocation Method

2.1 Nature, Scope and Purpose

AusNet Services' CAM documents the principles, policies and approach for attributing direct costs to, and allocating shared costs between the categories of electricity distribution services that it provides.

The CAM supports the purpose of the AER's Guidelines (the Guidelines) by promoting the principles of effective cost allocation, which in turn supports the national electricity objective by:

- ensuring that only efficient costs are allocated to different services;
- ensuring that prices paid by end customers for these services are not inappropriately inflated or discounted; and
- promoting transparency in information provided to the AER, and in the decisions made by the AER.

The CAM will be used in the preparation of capital and operating expenditure forecasts for building block proposals and for annual regulatory reporting obligations (Regulatory Information Notices (RINs)). Pursuant to clause 5.1 (b) of the Guidelines, AusNet Services will apply its CAM in preparing:

- forecast operating expenditure to be submitted to the AER in accordance with clause 6.5.6. of the NER;
- forecast capital expenditure to be submitted to the AER in accordance with clause 6.5.7. of the NER;
- prices for a negotiated distribution service determined in accordance with clause 6.7.1 of the NER;
- annual statements in accordance with a future regulatory information instrument; and
- actual or estimated capital expenditure for the purposes of increasing the value of its regulatory asset base under NER schedule 6.2.1(f).

The document also provides guidance for AusNet Services management and staff in relation to cost allocation principles, policy and ongoing obligations as they relate to the operations and delivery of distribution services. The electricity distribution services provided by AusNet Services, the nature of costs associated with those services and the methodology for attributing and allocating these costs is set out in sections 3, 4 and 5.

In recent years, AusNet Services has undertaken a range of business structure and process review projects. While the cost allocation methodology described in this document reflects the arrangements currently in place, AusNet Services is committed to the ongoing review and enhancement of all processes, procedures, systems and tools associated with this critical element of its business performance.

In this regard, AusNet Services recognises its obligations and the process, under the NER, for seeking any future amendments to its CAM once approved by the AER. Should circumstances change materially, either from a quantitative or qualitative perspective (e.g. due to significant corporate or structural changes), then AusNet Services will approach the AER to amend its CAM. A change in circumstances will be deemed to be material if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position of AusNet Services' electricity distribution business, gained by an assessment of financial information relating to AusNet Services' electricity distribution business.

2.2 Accountabilities and Responsibilities

The Guidelines require AusNet Services to include details of the accountabilities and responsibilities for updating, maintaining, applying and monitoring the application of the CAM.

The following table sets out the key accountabilities and responsibilities for the CAM.

Accountability	Responsibility
General Manager of Finance - Regulated Energy Services (RES)	<ul style="list-style-type: none">• Overall accountability for the CAM and compliance with the Guidelines• Implement the CAM and maintain associated costing procedures and guidelines for staff.
RES Finance Team	<ul style="list-style-type: none">• Apply the CAM in the preparation of all regulatory financial information, including reporting of actual results and development of forecasts• Recognise and report financial information in accordance with the CAM• Provide advice, education & support to staff in regard to the requirements of the CAM• Update and maintain the CAM as required• Ensure adherence to the CAM.
All finance and accounting teams	<ul style="list-style-type: none">• Recognise and report financial information in accordance with accounting and cost allocation policies.
Economic Regulation Manager	<ul style="list-style-type: none">• Provide advice on design, implementation and ongoing compliance obligations for the CAM• Monitor and advise the RES Finance Team of relevant changes to the NER, Cost Allocation Guideline or any other regulatory developments that may impact on the CAM• Apply the CAM in the preparation of regulatory forecast information.
Operational Managers	<ul style="list-style-type: none">• Comply with the CAM and support its application within relevant area of responsibility
All Staff	<ul style="list-style-type: none">• Comply with all relevant costing procedures and guidelines issued by Group Finance to ensure that AusNet Services complies with the approved CAM

While significant responsibility lies with the RES Finance team for the application of the CAM, all AusNet Services management and staff share responsibility for compliance and for the provision of accurate costing inputs and information (e.g. timesheets, activity based costing surveys) used within the cost allocation process.

2.3 Compliance Monitoring

Associated with the preparation of annual regulatory financial information, AusNet Services engages external auditors to audit the statutory financial statements (base accounts), internal controls, the regulatory accounts and RINs, derived from the application of the CAM.

AusNet Services further monitors compliance with the CAM and the AER's Guidelines through the following:

- In processing and approving costing entries, Finance staff review the coding of costs;
- Monthly preparation and review of the financial results on a full cost allocation basis for each regulated network, as well as the unregulated businesses of AusNet Services;
- The annual review of templates, documentation and work papers by the RES Finance and Regulation & Network Strategy teams during the preparation of the RINs;
- Monthly review of Management's activity based costing surveys and cost allocation models by the Finance Team;
- Cost allocation models are subject to external audit during the preparation and audit of the annual RINs;
- The Audit and Risk Management Committee (ARMC) formally consider and endorse the preparation process and associated due diligence framework each year, prior to the submission of the RINs to the subsidiary Board of Directors for approval;
- Related party transactions are subject to review by Finance staff, scrutiny from internal and external auditors, oversight by the ARMC and sign-off by the Directors within regulatory submissions to ensure adherence to approved arrangements and compliance with regulatory obligations in regard to the charging of actual costs only to regulated distribution services;
- The Directors will make such enquiries as may be necessary to allow them to sign the Responsibility Statements for regulatory financial information submitted to the AER; and
- Where required by the AER, financial information prepared under the CAM shall be subject to independent audit.

AusNet Services ensures consistency and the integrity of the Activity Based Costing (ABC) process and outcomes by:

- Providing access to the previously completed surveys to assist Managers in completing their current survey;
- The RES Finance Team reviewing compliance with the process and ensuring any material ABC allocation movements between months are appropriately explained by the relevant manager, or corrected if errors are detected;
- Undertaking an external audit review of the ABC survey data as part of annual regulatory audits, including following up material movements identified in cost centre survey allocations;
- Ensuring cost allocation outcomes are subject to external audit review for the Distribution and Transmission Regulatory Accounts;
- Ensuring signed Management Representations including representations relating to ABC surveys and regulatory cost allocations are provided (on an annual basis);
- Requiring directors' approval of the RINs; and
- Ensuring regulatory cost allocation outcomes are transparently reflected in regulatory accounts submitted to the AER.

2.4 Records Maintenance

Accounting Records & Working Papers

AusNet Services records its costs in accordance with all applicable accounting standards and Corporations Act 2001. All submissions are prepared in accordance with the necessary accounting, legislative and regulatory standards and guidelines and audit opinions report on compliance. Detailed cost reports (general ledger, project based, and activity based) are generated from the integrated financial and asset management system and supporting analytical spreadsheet packages.

As part of AusNet Services' external audit of the regulatory accounts, all supporting workpapers are submitted and subsequently reviewed by the audit team. Each working papers is provided with supporting calculations, where appropriate, and cost allocation models are cross checked to assure the veracity of the information supplied.

Records and work papers include:

- source invoices, vouchers, management costing surveys, general ledger reports, trial balances, transaction listings; and
- cost allocation model, allocators and working papers, supporting the attribution or allocation of costs to, or between, categories of distribution services.

Audit or Verification by Third Party

All financial reports, files and work papers are made available to the audit teams.

All submissions are prepared in accordance with the necessary accounting, legislative and regulatory standards and guidelines, and audit opinions report on compliance.

AusNet Services' cost allocation models and management activity based costing surveys are subject to independent audit review during the preparation and audit of the annual RINs.

Record retention

In accordance with clause 3.2(a) (7) of the Guidelines, AusNet Services will maintain the above mentioned records in order to demonstrate compliance with the guideline and to facilitate audit or other verification as required. AusNet Services will maintain the source financial records within its integrated financial and asset management systems.

2.5 Commencement Date, Version History and Publication

Commencement date

Subject to AER approval, the CAM is effective from 1 January 2019 and will be applied in the development of AusNet Services' building block proposal for the 2021-2025 regulatory control period. The CAM will remain in place until it is amended or replaced.

The process for amending an approved CAM is set out in the NER and the Guidelines. AusNet Services will ensure any amendments to the CAM are undertaken in accordance with those processes.

Version history and date of issue

In accordance with the Guidelines, the version control table, located on the second page, outlines the version number, effective date and details of amendments to the CAM.

Availability

In accordance with the requirements of clause 6.15.4(h) of the NER, AusNet Services will maintain a current copy of the approved Cost Allocation Method on its website www.ausnetservices.com.au.

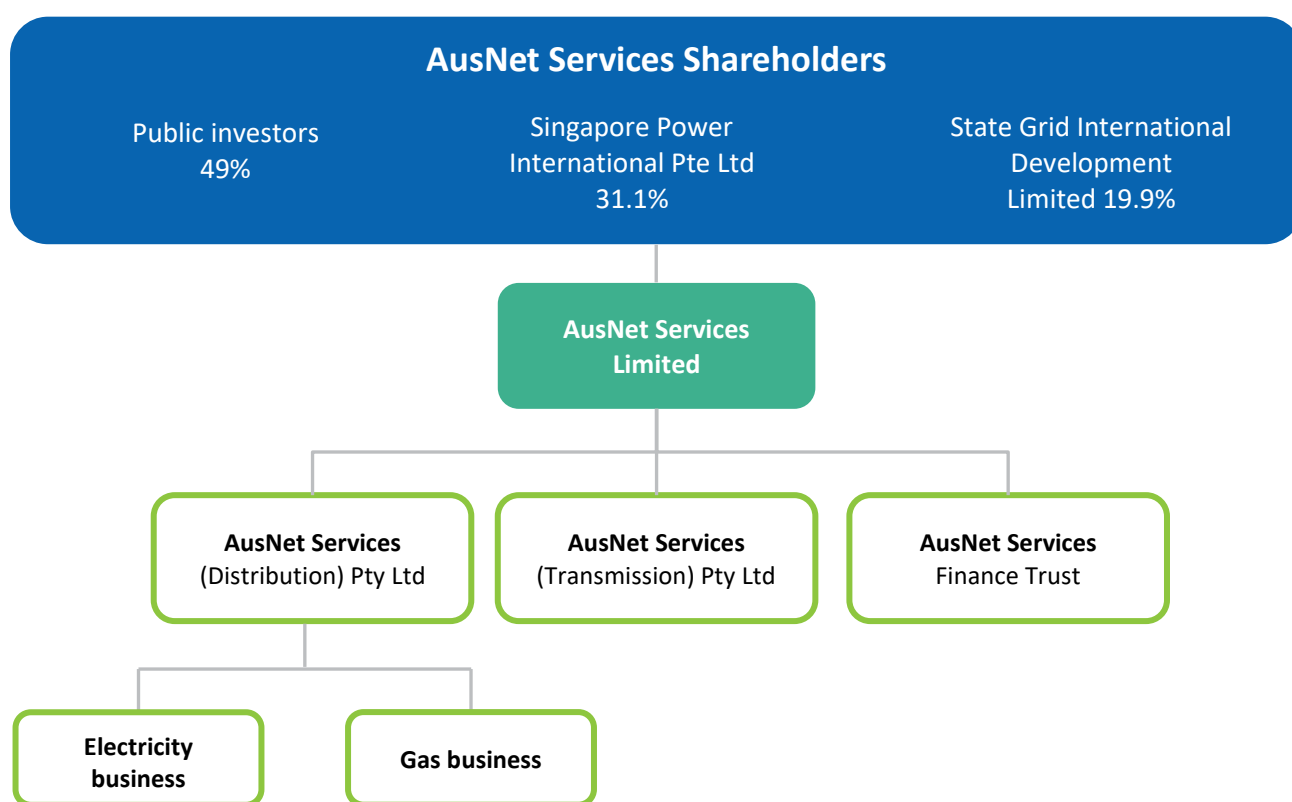
3 AusNet Services' Electricity Distribution Services

3.1 Corporate Structure

AusNet Services is Victoria's largest energy transmission and distribution company, delivering electricity and gas to more than 1.4 million business and residential customers across the state. AusNet Services' network assets include Victoria's electricity transmission network, an electricity distribution network in the state's east, and a gas distribution network in Victoria's west.

AusNet Services is a publicly listed company on the Australian Securities Exchange (ASX) and is 31.1% owned by Singapore Power International Pte Ltd and 19.9% owned by State Grid International Development Limited. AusNet Services' current structure provides clear separation between Transmission and Distribution (electricity and gas) assets. This separation is required for a number of reasons including market, funding and regulatory requirements. AusNet Services' corporate structure is shown in Figure 1.

Figure 1: AusNet Services' corporate structure



AusNet Services' electricity distribution services are contained within the operating subsidiary of AusNet Services (Distribution) Ltd, namely AusNet Electricity Services Pty Ltd.

3.2 Operational Structure

AusNet Services' integrated operational structure supports the delivery of our corporate strategy, providing strong focus on continually improving outcomes and performance of our regulated network assets for all customers and stakeholders, while pursuing business growth in new unregulated areas.

Operational divisions are split along functional lines, providing the efficient delivery of asset management, construction, maintenance and customer services to the group's three regulated network businesses, and external customers.

- Regulated Energy Services:
 - responsible for the stewardship of AusNet Services' regulated energy networks.
 - includes: delivery; planning, performance and operations; regulated business process; regulation and network strategy; and network engineering.
 - responsible for delivery of all regulated, network asset related works and field services, including customer projects.
- Commercial Energy Services (CES):
 - responsible for delivery of regulated and unregulated niche asset services to AusNet Services' regulated networks (metering and technical services) and external customers. Services include building, owning and operating contracted infrastructure, associated with renewables and HV voltage assets.
- Corporate Groups:
 - responsible for providing the full range of support services required by the operational divisions, and other internal and external stakeholders.
 - includes: Office of the Managing Director (MD); Technology; Finance; Strategy & Transformation; Governance; and People, Safety and Customer.

3.3 Categories of Electricity Distribution Services

Clause 3.2(a)(5) of the AER's Guidelines requires AusNet Services to specify the categories of distribution services that it provides, to which costs are to be attributed or allocated, and the types of persons to whom those services are provided.

In accordance with this requirement the distribution services that AusNet Services provides are set out below:

- **Standard Control Services**, including: planning, design and construction of the distribution network; maintaining the distribution network and connection assets; operating the distribution network and connection assets for DNSP purposes; emergency response; new connections requiring augmentations; supply abolishment less than or equal to 100 amps; and associated administrative support. These are provided to all residential and business customers connected to the electricity distribution network.
- **Alternative Control Services**, including: Type 5, 6 and smart meter regulated services, auxiliary meter services, management of Type 7 meter data; operation and maintenance of AusNet Services' public lighting assets; energisation and de-energisation; temporary supply services; service truck visits; inspection of devices installed for energy export; and reserve feeder maintenance service. These may be provided to all residential and business customers, government agencies, retailers, developers or individuals seeking non-standard services or who may be responsible for damage to network assets.
- **Negotiated Distribution Services**, including: new public lighting; construction of a reserve feeder and alteration or relocation of AusNet Services' public lighting assets; and operations and maintenance repair and replacement of dedicated public lighting assets. These may be provided to government agencies or developers. Ring Fencing waivers have been obtained from the AER to allow AusNet Services to continue providing these services during the 2016 to 2020 regulatory period.
- **Unregulated Distribution Services** these services include Emergency Recoverable Works and the Installation, repair and maintenance of watchman lights. Ring Fencing waivers has been obtained from the AER to allow AusNet Services to continue providing these services during the 2016 to 2020 regulatory period. This also classification also includes services offered in accordance with the AER's Shared Asset Guideline.
- **Non regulated (non-distribution) Services** are non-distribution services that AusNet Services is generally prohibited from providing. However, this classification is still used where a Ring Fencing waiver has been obtained from the AER to allow AusNet Services to continue providing these services during the 2016 to 2020 regulatory period.

The service classifications presented above are consistent with the AER's approved Service Classifications for the 2016 to 2020 regulatory period, as published in its final decision on 26 May 2016.

4 Cost Allocation Principles and Policies

The following principles underpin the AusNet Services' cost allocation methodology and are used to attribute costs to, or allocate costs between, categories of distribution services:

- costs are directly attributed to, or allocated between, categories of distribution services based on the substance of the underlying transaction or event rather than its legal form;
- only costs that are directly attributable to the provision of a particular category of distribution services will be attributed to that category of services;
- shared costs incurred in providing several categories of distribution services will be allocated between these categories using a causal allocator, except to the extent that the cost is immaterial or a causal relationship cannot be established, in which case a non-causal allocator will be used, subject to AER approval;
- an avoided cost approach will not be used to allocate shared costs;
- costs will not be allocated more than once (i.e. double-counted) and the same cost will not be recovered more than once through the charges levied for all distribution services;
- the principles, policies and approach used to attribute costs directly to, or to allocate costs between categories of distribution services will continue to comply with the AER's Ring-fencing Guideline Version 2 – October 2017;
- costs that have been attributed or allocated to categories of distribution services will not be reattributed or reallocated to another category of distribution services during the course of a regulatory control period; and
- the proposed cost allocation method is consistent with AusNet Services' previous cost allocation principles, policies and methodology allowing for comparison to historical periods.

4.1 Costing Overview

AusNet Services utilise SAP as the enterprise resource planning (ERP) system. Costing entries include details of cost centre, account and project number. The general ledger is structured on a responsibility basis, identifying the spending cost centre and cost account. General ledger reporting gives a view of total cost 'inputs' and supports internal budget accountability reporting and statutory reporting.

The cost inputs on individual projects, jobs or work programs are summarised up (mapped) to work codes, reflecting categories of capital, operating and maintenance activities and services. Activity reporting provides a view of cost 'outputs/outcomes' and supports regulatory reporting, benchmarking and pricing requirements.

4.2 Summary of Cost Types

The following categories represent the key types of operating costs for AusNet Services:

- Labour costs – are either directly costed / attributed to asset related work codes and activities (maintenance and capital expenditure) via job orders and projects in the asset management system and labour timesheets, or allocated (for shared support services) on the basis of an activity based costing approach (causal basis);
- Materials costs and invoiced contract and services costs (third parties) – through direct costing / attribution to asset related work codes and activities via the ERP system, or allocated on an activity based costing approach, referencing the causal drivers of the cost in the case of shared costs; and
- Directly costed items – through system-based attribution (direct attribution) due to the specific nature of the cost (e.g. property taxes, license fees, network charges).

5 Detailed Principles & Policies for Attributing & Allocating Costs

5.1 Guiding Principles for Cost Allocation

AusNet Services allocates costs directly to projects, assets and services where possible and appropriate. Where costs are shared, the use of activity based costing and other appropriate allocators are used to allocate costs across projects, assets and services, to satisfy the needs of internal management reporting, statutory reporting and regulatory information requirements.

AusNet Services' cost allocation method and processes have been developed in line with the following guiding principles:

- direct costing/attribution will be used wherever a clear 'line of sight' exists between the cost incurred and the network assets /network service;
- ongoing review will seek to increase the level of direct cost attribution and reduce the level of costs subject to allocation;
- cost allocations will be automated wherever possible;
- cost allocation methodology and controls will be subject to regular internal and independent review; and
- cost allocation methodology must maintain consistency between reporting periods.

5.2 Cost Allocation Processes

The following processes and tools are used to support AusNet Services' cost allocation method:

Directly Attributable Costs

- Direct Cost Attribution (by direct mapping of general ledger accounts or at source transaction for materials and accounts payable transactions);
- Manual Project Journals (cost transfers); and
- Labour Timesheets.

Shared /Allocated Costs

- ABC analysis (including ABC Management Surveys and causal cost allocators).

5.3 Directly Attributable Costs

Wherever possible, costs are directly attributed to assets and distribution service categories where the cost is directly related to the management (i.e. operation, maintenance, construction) of the asset or the delivery of the service. In other words, where there exists a clear 'line of sight' between the costs incurred and the particular assets and/or service, then these costs are directly attributed to those assets and/or service categories.

Within this context, the closer the costs and/or activity is to the asset or category of service, the stronger the causal relationship and simpler the cost attribution to that particular asset or service. This applies irrespective of the type of expense.

5.4 Direct Cost Attribution

The following table provides a summary of the cost items that AusNet Services directly attributes to distribution services, including the process and basis for that attribution:

Cost Types	Description	Basis of Attribution / Cost Driver	Service/s Attributed to	Method changed from previous periods?
Labour	Includes the following: Normal and overtime salaries and wages, associated payroll oncosts and employee/industry allowances	Standard rates specific to job type, directly attributed by employee timesheet to job/work order.	Standard Control Alternative Control Negotiated Non Regulated	N
Materials	Includes inventory and non-inventory (irregular) items	Directly attributed to job/work order at either average cost (for items in inventory) or based on purchase order mapped to the particular project.	Standard Control Alternative Control Negotiated Non Regulated	N
Regulated Levies and Charges	Regulatory obligations and industry levies and charges (see below)	Directly attributed to relevant network by General Ledger account mapping or direct costing via Accounts Payable.	Standard Control	N
Contractor and Third Party Costs	Includes costs associated with the provision of services by external parties	Directly attributed to job/work order, or directly attributed by General Ledger account mapping, or directly attributable via purchase order/invoice.	Standard Control Alternative Control Negotiated Non Regulated	N

Specific Cost Items subject to Direct Attribution				
Cost Types	Description	Basis of Attribution / Cost Driver	Service/s Attributed to	Method changed from previous periods?
Regulated Levies and Charges				
Guaranteed Service Level Payments	Regulated obligation for customer service levels	GL Account directly attributed	Standard Control	N
Distribution Licence Fees	Regulatory Obligation	GL Accounts directly attributed to relevant Network	Standard Control	N
TUoS Fees	Transmission network connection and use of system	GL Accounts directly attributed	Standard Control	N
Network Support Payments and Cross Boundary Charges	Required regulated costs	GL Account directly attributed	Standard Control	N
ESV Levy & Ombudsman levies	Payments to the ombudsman and Energy Safe Victoria	GL Accounts directly attributed	Standard Control	N
Land Tax	Impost associated with land holdings for AusNet Services' network	GL Accounts directly attributed to regulated network to which the site/property relates (<i>note – a range of other property related charges are allocated across different categories of services – see section 5.6.2</i>)	Standard Control	N

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Specific Cost Items subject to Direct Attribution				
Cost Types	Description	Basis of Attribution / Cost Driver	Service/s Attributed to	Method changed from previous periods?
Accounts Payable & Services				
Claims/ settlements and surge payments	Domestic power surge claims, other claims and settlements due to third parties	GL Account directly attributed	Standard Control	N
Environmental Service Costs	Site remediation, asbestos meter board removal/disposal, oil containment, etc	Directly attributed to the regulated network to which the site/property relates	Standard Control Non Regulated	N
Site Security Costs	Costs associated with security at AusNet Services' stations and sites	Directly attributed to the regulated network to which the site/property relates	Standard Control Non Regulated	N
Property & Liability insurance premiums	Property & Liability insurance premiums (including bushfire liability) applicable to AusNet Services' Electricity Distribution network	Directly attributed to the regulated network to which the insured site/property / asset relates (note – premiums are negotiated and charged to each of the businesses. The premiums incurred by the Electricity Distribution business are only attributable to standard control services	Standard Control	N
Various recurrent transactions	FBT costs, Audit Fees, Bank Fees, Legal expenses and Bad Debt Expense where costs are directly attributable to a network	Directly attributed to the regulated network to which the costs relate. E.g. - FBT based on cost weighted by employees - Bank fees based on the network/business holding the bank account - Audit fees based on the network/business being audited - Legal expenses based on the related network/business - Bad debt expense based on the nature of the unrecovered cost	Standard Control Non Regulated	N

To support the attribution and allocation of costs, AusNet Services uses a hierarchy and structure that initially 'parents' work orders and projects to defined capital, operating and maintenance activities (or 'work codes'). In turn, work codes are to distribution services.

The financial system and works management system have been developed to assist project managers and asset service teams to track and report detailed project cost or activity information, based on the use of work orders, project numbers and work codes.

The following is a list of Operating & Maintenance (O&M) work codes which are presently used to attribute costs directly to categories of distribution services:

Network Operating Costs	Distribution Service Category
Other Opex	Standard Control
Meter Reading / Metering	Alternative Control
Special Meter Reading	Alternative Control
Non-network	Standard Control
Negotiated Services	Negotiated Services
Alternative Control Services	Alternative Control Services
Unregulated Works	Non-regulated
Network Maintenance Costs	Distribution Service Category
Preventative Maintenance	Standard Control
Corrective Maintenance	Standard Control
Emergency Maintenance	Standard Control
Inspection	Standard Control
Vegetation Management	Standard Control
System Control	Standard Control
Despatch Services	Standard Control
Safety, Environmental, Legal, Security & Compliance	Standard Control

5.4.1 Manual Project Journals

The Manual Project Journals are 'exception based' cost adjustments used where an employee (or specific expense such as external consultancy) is assigned to, or engaged on, a specific project for short periods. In cases where project related hours (of a material level) are identified in non-timesheet areas, this time may be recorded and journalled directly to the specific project from the payroll costing default codes.

5.4.2 Labour Timesheets

AusNet Services' operational staff employ an online timesheet facility to track and charge hours worked to specific projects and activities (capital or operating / maintenance), and in turn, to service categories. Staff working on such specific projects must complete timesheets for each pay cycle, which capture work hours and charge all projects on the basis of a standard charge rate. The charge rate includes direct labour costs and applicable labour oncosts such as workcover, superannuation and payroll tax.

5.5 Shared or Allocated Costs

AusNet Services employs an ABC approach to allocate those remaining costs that are not directly attributed via the methods discussed above. These 'shared' costs are initially pooled against cost centre 'overhead / administration' project codes, and then allocated between relevant categories of services, for regulatory reporting, on the basis of causal cost drivers as follows:

- Significant non-labour items, such as motor vehicle costs, and other significant non-project non-labour costs are allocated to service categories by the RES Finance team using appropriate causal cost drivers, such as labour hours; and
- Non-project costed labour (i.e. labour costs not directly charged to projects in accordance with sections 5.3 or 5.4 above are generally of a corporate or overhead nature) and other general administrative and overhead costs, are subject to allocation via a formal, business-wide, effort-based ABC survey conducted for every AusNet Services responsibility centre.

5.5.1 ABC Surveys

The ABC survey requires cost centre managers to complete and submit, their assessment of the split of the residual 'shared' or overhead costs remaining within their reporting cost centre, after the direct attribution of all project-costed labour and non-labour expenditure. The survey is structured to list the key activities performed within the cost centre, with a relevant cost driver, to allocate the shared cost of each activity (e.g. full-time employees numbers, asset values, debt balance, revenues). The overall summarised outcome of the cost centre's survey is then applied to the residual shared cost pool for that cost centre.

The survey provides an activity to network/service matrix covering:

- Networks and businesses (Transmission, Electricity Distribution, Gas Distribution and Commercial Energy Services)
- Activity expenditure types (operating and capital expenditure)
- Lines of service (Regulated and Non regulated).

The ABC survey supports the following cost allocation processes:

- To split non-project coded expenditure to meet the requirements of regulatory reporting, statutory segment reporting, and impairment testing; and
- To derive, and 'true-up', the rates for capitalising reasonable business overheads to new constructed assets in accordance with accounting standards and internal policy.

5.5.2 Incremental Costing approach for Alternative Control Services

AusNet Services' shared costs are allocated between operating activities and capital work projects, applying an overhead capitalisation process to capitalise reasonable overhead costs directly incurred in the purchase or construction of new network assets (refer section 5.7 for further details).

The shared costs that are not capitalised (i.e. expensed) are allocated to Standard Control services and Non Regulated services.

AusNet Services does not allocate shared operating costs to Alternative Control operating services but instead applies an incremental costing approach which attributes only the direct costs incurred in performing these operating services. [change to = attributes on the costs where there is a direct line of sight to the Alternative Control Services performed]

"Incremental costs" are the additional costs that AusNet Services will incur as a result of expanding the output of a service defined as an Alternative Control service.

Whilst the costs that are considered incremental can theoretically vary greatly depending on the size of the increment, for the purposes of cost allocation Alternative Control services will capture only:

- The labour, and associated on-costs, of providing those services;
- Direct contractor costs associated with undertaking such work; and
- Any materials (e.g. fuel) that directly relate to the volume of services provided.

5.5.3 High Level Breakdown of Cost Items Subject to Allocation

AusNet Services employs an ABC approach to allocate costs that are not directly attributed via the methods discussed above. The following table presents a high level breakdown of the shared/overhead cost items that are subject to allocation, the basis for the allocation and the distribution service categories to which the costs are allocated:

Cost Subject to Allocation	Description	Basis of Attribution / Cost Driver	Service/s Attributed to	Method changed from previous periods?
Finance				
CFO	Costs of the office of the Chief Financial Officer	Costs allocated by ABC survey results based on estimated staff time.	Standard Control Non Regulated	N
Group Finance, RES Finance, CES Finance	Statutory reporting, regulatory reporting, accounting policy, corporate reporting, asset accounting & accounting services	Costs allocated by ABC survey based on either estimated staff time or revenue and asset base splits.	Standard Control Non Regulated	N
Treasury	Responsible for Treasury Operations, including debt refinancing and management of financial risk as well as insurance management	Costs allocated on basis of ABC survey, using estimated staff effort, debt splits or RAB values.	Standard Control Non Regulated	N
Procurement	Responsible for procurement activities including fleet management, strategic sourcing and Operational Procurement and Accounts Payable	Costs allocated by ABC survey. The causal basis being time spent on fleet management, procurement and tendering.	Standard Control Non Regulated	N
Financial Planning and Insights	Responsible for financial planning, budgeting, forecasting and revenue insights.	Costs allocated by ABC survey based on estimated staff time.	Standard Control Non Regulated	N
Tax and Investor Relations	Management of tax functions including compliance. Investor relations includes analyst / investor communications and engagement activities	Costs allocated by ABC survey based on asset base and time spent on activities.	Standard Control Non Regulated	N
Performance Management Review (PMR)	Accountable for Portfolio planning, prioritisation and governance.	Costs allocated on the basis of ABC survey. The causal basis being time effort across PMR functions.	Standard Control Non Regulated	N
Performance Management Unit	Responsible for oversight and governance of the cost out program.	Costs allocated by ABC survey based on estimated staff time.	Standard Control Non Regulated	N
General insurance	General insurance e.g. motor vehicle, personal accident, Directors & Officers	Costs allocated based on total business ABC result, weighted by employees.	Standard Control Non Regulated	N
Organisational-wide Audit Fees	External audit fees for the organisation Statutory audit	The basis of allocation is network asset values and regulated revenues.	Standard Control Non Regulated	N
Governance				
Risk, Legal, Internal Audit	Risk Management, Internal Audit, Compliance, Legal, Company Secretary	Costs allocated by ABC survey results. The causal basis is time spent on various activities performed.	Standard Control Non Regulated	N

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Cost Subject to Allocation	Description	Basis of Attribution / Cost Driver	Service/s Attributed to	Method changed from previous periods?
People, Safety & Customer				
People & Safety and Corporate Affairs	Workplace relations, remuneration, and benefits, people and change, safety compliance and training	Costs allocated based on ABC survey. Causal basis is estimated effort on these activities.	Standard Control Non Regulated	N
Customer Services	Customer service functions	Costs allocated based on ABC Survey, using estimated effort on claims, call centre activities, complaints, inquires, etc.	Standard Control Non Regulated	N
Technology				
Technology	Strategy & architecture, operation support, security, digital & innovation	Costs allocated on the basis of ABC survey. The causal basis being time spent on functions provided to the business or RAB split.	Standard Control Non Regulated	N
Strategy & Transformation				
Strategy & Planning	Corporate strategy & planning	Costs allocated based on ABC survey. Causal basis is estimated time on corporate planning and strategy functions.	Standard Control Non Regulated	N
Regulated Energy Services				
Network Engineering	Network Assets, Network Innovation, Network Performance & Intelligence, REFCL, Networks Planning	Costs allocated by ABC survey results. The causal basis is time spent on various activities performed.	Standard Control Non Regulated	N
Planning performance and operations	CEOT, Scheduling, Planning & Operational Analytics, Network Access Planning	Costs allocated by ABC survey results. The causal basis is time spent on various activities performed.	Standard Control Non Regulated	N
Delivery	Major projects, Customer & Community relations, Vegetation Management, Delivery	Costs allocated by ABC survey results. The causal basis is time spent on various activities performed.	Standard Control Non Regulated	N
Regulatory and Network Strategy	Energy Connections, Network Safety, Network Strategy, Economic Regulation, Regulatory Frameworks	Costs allocated by ABC survey results. The causal basis is time spent on various activities performed.	Standard Control Non Regulated	N
Regulated Business Process	Process performance and change management	Costs allocated by ABC survey results. The causal basis is time spent on various activities performed.	Standard Control Non Regulated	N
Regulated Business Owner	Business owners and strategy and projects	Costs allocated by ABC survey results. The causal basis is time spent on various activities performed.	Standard Control Non Regulated	N
Other				
Office of the Managing Director	Costs for the office of the MD	Costs allocated by ABC survey based on either estimated revenue and asset base splits.	Standard Control Non Regulated	N
Commercial Energy Services	E.g. metering services, non-invasive testing, technical support, etc.	Costs for services allocated directly with a corresponding overhead cost allocated by ABC survey based on estimated staff time and effort.	Standard Control Non Regulated	N

5.6 Overhead Capitalisation

AusNet Services employs a systematic approach to calculate and capitalise reasonable overhead costs in the construction of new network assets. In accordance with internal accounting policy, the overhead capitalisation process references ABC survey results to ensure that appropriate overhead costs are reflected within reported capital expenditures.

A network-specific overhead rate is applied to all direct capital expenditure for that network (i.e. transmission, electricity or gas) which means that the application of capitalised overheads to capital projects, and distribution service categories, is in direct proportion to the direct capital expenditure incurred against the project, or service category.

The overhead cost pool subject to capitalisation reflects the residual 'shared' costs remaining within each cost centre, after the direct attribution of all project-costed labour and non-labour expenditure. Where the ABC survey for the cost centre allocates a percentage of cost centre effort for the period to support capital work, then that percentage of the cost centre's residual overhead cost pool is transferred to 'capitalised overheads' and ultimately allocated to qualifying capital works projects within Assets-Under-Construction (via the overhead capitalisation rate). The operating costs of the cost centre are subsequently reduced by the amounts capitalised.

The capitalisation of overheads is in accordance with accounting standards; therefore not all costs are eligible for capitalisation. Certain cost categories are excluded from being capitalised and as such remain as opex which are allocated to each network based on ABC Survey results.