



AusNet Electricity Services Pty Ltd

Electricity Distribution Price Review 2016–20

Appendix 1B: Cost Allocation Methodology

Submitted: 30 April 2015





AusNet Services

Electricity Distribution Cost Allocation Method

November 2014



VERSION HISTORY

Version Number	Issue Date	Details of Amendment
1	17 December 2010	Approved Public version
2	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)

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1 INTRODUCTION

The National Electricity Rules (NER) requires Distribution Network Service Providers (DNSPs) to develop and submit a proposed Cost Allocation Method (CAM) to the Australian Energy Regulator (AER) for approval.

Under clause 11.17.5 of the NER, the proposed CAM must be submitted at least 13 months before the expiry of a distribution determination that applies to the DNSP (i.e. by 30 November 2014 for AusNet Electricity Services Pty Ltd¹, part of the AusNet Services Stapled Group (AusNet Services²)).

This document sets out the method used by AusNet Services for the attribution of direct costs and the allocation of shared costs to, and between, its categories of electricity distribution services. The method 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 related parties. In addition to that, as AusNet Services is implementing an enterprise resource planning system in mid-2015, the CAM has also been updated to reflect the revised financial chart of accounts which will be applicable from mid-2015. 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 2016 to 2020 regulatory periods. The CAM will be updated if these service classifications are inconsistent with the AER's final decision for the 2016 to 2020 distribution determination to apply to AusNet Services.

The AER will review the CAM as part of each future price determination for AusNet Services.

2 OVERVIEW, 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, as required under clause 2.1 of the AER's Guidelines.

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.

In accordance with clause 11.17.5 (a) of the NER, AusNet Services' proposed CAM must be submitted to the AER for approval, together with the building block proposal. Once approved by the AER, the CAM must be used for the purposes of allocating costs in accordance with clause 6.15.1 of chapter 6 of the NER.

The CAM will be used in the preparation of capital and operating expenditure forecasts for building block proposals and for annual regulatory financial reporting obligations (regulatory accounts). In accordance with clause 5.1 (b) of the Guidelines, AusNet Services will apply its CAM in preparing:

¹ Prior to 4 August 2014, AusNet Electricity Services Pty Ltd was trading under the name SPI Electricity Pty Ltd.

² Prior to 4 August 2014, AusNet Services was trading under the name SP AusNet.

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- 1) forecast operating expenditure to be submitted to the AER in accordance with clause 6.5.6. of the NER;
- 2) forecast capital expenditure to be submitted to the AER in accordance with clause 6.5.7. of the NER;
- 3) prices for a negotiated distribution service determined in accordance with clause 6.7.1 of the NER;
- 4) annual statements in accordance with a future regulatory information instrument; and
- 5) 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 associated with bringing together its Transmission and Distribution businesses. 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.

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

Clause 3.2(a)(3) of the Guidelines requires AusNet Services to include, within the CAM document, details of the accountabilities for the document and responsibilities for updating, maintaining, applying and monitoring the application of the CAM.

The following table sets out these accountabilities and responsibilities:

	Accountability and/or Responsibility
Corporate Accounting Manager	<ul style="list-style-type: none">• Implement the CAM and maintain associated costing procedures and guidelines for staff• Update and maintain the CAM as required
Regulatory Accounting 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• Provide advice, education and support to staff in regard to the requirements of the CAM• Ensure adherence to the CAM

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Financial and management 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 Regulatory Accounting Team of relevant changes to the NER, Cost Allocation Guideline or any other regulatory developments that may impact on the CAM
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 Regulatory Accounting 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 independent auditors to audit the statutory financial statements (base accounts), internal controls and the regulatory accounts, derived from the application of the CAM.

AusNet Services will further monitor its 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;
- the annual review of templates, documentation and work papers by the Regulatory Accounting and Regulation & Network Strategy teams during the preparation of regulatory accounting statements;
- cost allocation models and management activity based costing surveys are subject to review by the Regulatory Accounting team and external audit during the preparation and audit of the annual regulatory accounting statements;
- the ARMC formally consider and endorse the preparation process and associated due diligence framework each year, prior to the submission of the Regulatory Accounting Statements 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;
- all related party transactions are approved by the ARMC and are subject to Corporations Act requirements;
- 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.

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Clause 2.2.8 (b) of the Guidelines requires that the CAM must allow for effective comparison of historical and forecast cost allocation between the period to which the Essential Services Commission (ESC) distribution pricing determination applies and later regulatory control periods.

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

- distributing the previous quarter's completed survey and survey instructions to managers each quarter to assist them in completing their current survey;
- the Regulatory Accounting Team reviewing and following up compliance with the process and that any material allocation movements between quarters, identified in survey returns, 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;
- requiring directors' approval of the Regulatory Accounting statements; 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. Detailed cost reports (general ledger, project based, and activity based) are generated from the integrated financial and asset management systems and supporting analytical spreadsheet packages.

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 regulatory accounting statements.

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

The methodology and cost allocation principles contained in the CAM are consistent with those that AusNet Services has applied in reporting electricity distribution service costs within the current, and previous,

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regulatory reporting periods, including the most recent Regulatory Accounting Statements submitted, i.e. for the year ending 31 December 2013.

Subject to AER approval, the CAM will be implemented from 1 January 2016 and has been applied in the development of AusNet Services' building block proposal for the 2016-2020 regulatory control period.

Version history and date of issue

The NER provides for the amendment of the CAM from time to time, and requires that the history and date of issue of the document be updated accordingly. As such, this document includes a version control table, located on the second page, to detail version number, effective date and details of the amendment.

Publication

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

3 AUSNET SERVICES' ELECTRICITY DISTRIBUTION SERVICES

3.1 CORPORATE STRUCTURE

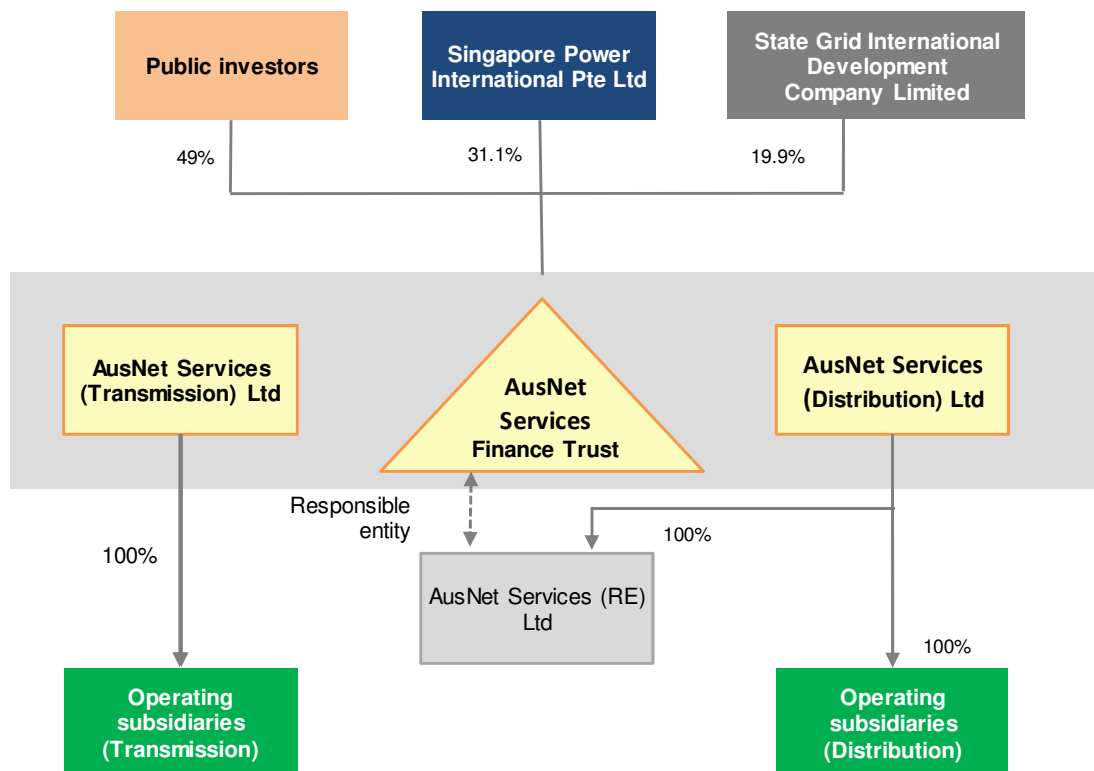
Clause 3.2(a) (4) of the AER's Guidelines requires that a description of the DNSP's corporate and organisational structure be provided within the CAM.

AusNet Services is Victoria's largest energy transmission and distribution company, delivering electricity and gas to over 1.3 million business and residential customers across the state. AusNet Services' network assets include 100% of Victoria's electricity transmission network, an electricity distribution network in the state's east and a natural gas distribution network in Victoria's west.

AusNet Services is a publicly listed company on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST), and is 31.1% owned by Singapore Power International Pte Ltd and 19.9% owned by State Grid International Development Company Limited. AusNet Services' corporate structure, shown below in Figure 1, provides clear separation between Transmission and Distribution (electricity and gas) assets, services, costs and revenues.

Figure 1: AusNet Services' corporate structure

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AusNet Services' electricity distribution services, and associated regulatory reporting, are contained within the operating subsidiaries of AusNet Services (Distribution) Ltd³, namely AusNet Electricity Services Pty Ltd⁴ and AusNet Asset Services Pty Ltd⁵.

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.

- Asset Management:
 - responsible for the stewardship of AusNet Services' regulated energy networks.
 - includes: regulation and network strategy; network reliability and quality of supply; networks planning; network engineering; project design; works program management; and customer strategy.
- Service Delivery:
 - responsible for delivery of all regulated, network asset related works and field services, including customer projects.

³ Prior to 4 August 2014, AusNet Services (Distribution) Ltd was trading under the name SP Australia Networks (Distribution) Ltd.

⁴ Prior to 4 August 2014, AusNet Services Electricity Services Pty Ltd was trading under the name SPI Electricity Pty Ltd.

⁵ Prior to 4 August 2014, AusNet Asset Services Pty Ltd was trading under the name SPI Networks Pty Ltd.

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- includes: network operations and control; customer connections; construction and maintenance of network assets; supply restoration; and logistics..
- Select Solutions:
 - responsible for delivery of regulated and unregulated niche asset services to AusNet Services' regulated networks and external customers.
 - includes: metering services; vegetation management; asset inspection; technical services (e.g. chemical testing, asset condition monitoring).
- 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); IT & Communications Strategy; IT services; Finance; Strategy & Business Development; General Counsel & Company Secretary; People & Safety; Risk & Assurance.

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.

3.3 CATEGORIES OF ELECTRICITY DISTRIBUTION SERVICES

AusNet Services' electricity distribution network carries electricity from the transmission network to substations for distribution to connected electricity customers in eastern metropolitan Melbourne and eastern Victoria. The network is 47,000 kms in length, spans an area of approximately 80,000 square kms and services more than 669,000 customers.

Under the NER, the AER may classify distribution services as follows:

- standard control services,
- alternative control services,
- negotiated distribution services, and
- non regulated 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.

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- **Non regulated (non-distribution) Services** are those that AusNet Services is not obliged to provide and which are capable of being provided on a contestable basis. These are not subject to economic regulation under the NER. Effective competition exists for these services so that the customer has a choice of service provider and prices are set by the market. These services may be provided to other utilities, government agencies, business or individual customers. In AusNet Services, these services are delivered by the Select Solutions division, and include Type 4 metering services, Type 5, 6 and smart meter unregulated services, vegetation management, asset inspection, emergency recoverable works, customer initiated supply enhancement, installation, maintenance and removal of watchman lights and technical/laboratory services.

The service classifications presented above are consistent with the AER's proposed service classifications for the 2016 to 2020 regulatory period, as published in its Framework and Approach paper on 24 October 2014.

4 COST ALLOCATION PRINCIPLES

Clause 3.2(a)(6) of the Guidelines requires AusNet Services to include within the CAM details of the principles and policies used for attributing costs directly to, or allocating costs between, categories of distribution services. These principles and policies must meet the requirements of clause 2.2 of the Guidelines.

AusNet Services' CAM has been developed in accordance with the Cost Allocation Principles contained in the NER. These principles support effective cost allocation and underpin the cost allocation policies and processes used by AusNet Services 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 ESC's Electricity Industry Guideline No. 17 'Electricity Ring-Fencing'. When the guideline is replaced by new distribution ring fencing guidelines published by the AER in accordance with clause 6.17 of the NER, the CAM will comply with the new guidelines;
- 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 between historical cost allocation for periods to which ESC distribution pricing determination applies and later regulatory control periods.

AusNet Services' detailed principles, policies and processes for attributing costs directly to, or allocating costs between, categories of distribution services are contained in the following section.

5 DETAILED PRINCIPLES AND POLICIES FOR ATTRIBUTING AND ALLOCATING COSTS

5.1 AUSNET SERVICES' GUIDING PRINCIPLES FOR COST ALLOCATION

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

- 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 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 AUSNET SERVICES' COSTING OVERVIEW

AusNet Services will be implementing SAP, an enterprise resource planning system, in mid 2015. 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 ('who') and cost account ('what'). 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 (as discussed in section 5.5.1), 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.

AusNet Services attributes costs directly to projects, activities and services where possible and appropriate. Where costs are shared, and unable to be directly attributed, the use of activity based costing and appropriate cost allocators are used to allocate costs across projects, activities and services, to satisfy the needs of internal management reporting, statutory reporting and regulatory information requirements.

5.3 SUMMARY OF COST TYPES

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

- Labour costs – through the payroll 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 inventory management or accounts payable systems, 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, general ledger account attribution (direct attribution) due to the specific nature of the cost (e.g. property taxes, license fees, network charges).

5.4 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);

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- Manual Project Journals (cost transfers); and
- Labour Timesheets.

Shared /Allocated Costs

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

5.5 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 cost.

5.5.1 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 periods of ESC pricing determination?
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	Inventory and non-inventory (irregular) items	Directly attributed to job/ work order at average cost.	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 (<i>*note that a range of other levies and charges are allocated across different categories of services - see Section 5.6.2)</i>	Standard Control	N
Third party costs	Provision of services by external parties	Directly attributed to job/ work order or directly attributed by General Ledger account mapping.	Standard Control Alternative Control Negotiated Non Regulated	N

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Specific Cost Items subject to Direct Attribution				
Cost Item	Description	Basis of Attribution / Cost Driver	Service/s Attributed to	Method changed from periods of ESC pricing determination?
<u>Regulated Levies and Charges</u>				
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
ESV & 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	Directly attributed to regulated Network to which the site/ property relates (<i>*note that a range of other property related charges are allocated across different categories of services - see Section 5.6.2)</i>	Standard Control	N
<u>Accounts Payable & Services</u>				
Claims/ settlements and surge payments	Domestic power surge claims, other claims and settlements due to third parties	GL accounts directly attributed	Standard Control	N
Environmental Service Costs	Site remediation, asbestos meter boards removal/disposal, oil containment etc	Directly attributed to regulated Network to which the site/property relates	Standard Control Non Regulated (e.g. Gas)	N
Site security costs	Costs associated with security at AusNet Services stations and sites	Directly attributed to regulated Network to which the site relates	Standard Control	N
Property & Liability insurance premiums	Property & Liability insurance premiums (including bushfire liability) applicable to AusNet Services' Electricity Distribution network	Directly attributed to regulated Network to which the insured site / property / asset relates (<i>*note that these premiums are negotiated, and charged, to each of AusNet Services' businesses. The premiums that are incurred by the Electricity Distribution network are only attributable to standard control services)</i>	Standard Control	N

To support the attribution and allocation of costs, AusNet Services uses an ABC hierarchy and structure that initially 'parents' work orders/projects to defined capital, operating and maintenance activities (or work codes), and then in turn maps these work codes to regulated and non regulated 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. In cases where operational units or work teams perform a direct, dedicated service to end assets, then these costs are directly attributed, via default payroll coding, to the relevant work code for the assets or service (e.g. SCADA support team, network controllers). This method of default payroll costing is used in place of labour timesheets, which apply where a range of projects or activities are performed in the same pay period.

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:

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Network Operating Costs

Other opex

Meter reading

Special Meter Reading

Data exceptions

Non-network

Negotiated Services

Alternative Control Services

Unregulated works

Distribution Service Category

Standard Control

Alternative Control

Alternative Control

Standard Control

Standard Control

Negotiated Services

Alternative Control Services

Non-regulated

Network Maintenance Costs

Preventative Maintenance

Corrective Maintenance

Emergency Maintenance

Inspection

Vegetation management

System Control

Despatch services

Safety, environmental, legal, security & compliance

Distribution Service Category

Standard Control

Standard Control

Standard Control

Standard Control

Standard Control

Standard Control

Standard Control

Standard Control

5.5.2 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 man-hours of a material level are identified in non-timesheet areas (e.g. Finance/Treasury – equity raising costs), this time may be recorded and journalled directly to the specific project from the payroll costing default codes.

5.5.3 LABOUR TIMESHEETS

AusNet Services' operational staff employ an on-line 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.

Timesheets apply in cases where a range of different projects and activities are performed during the period, rather than the 'dedicated' support or service situation referred to in section 5.5.1 above.

5.6 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 general insurance premiums, stores costs and audit fees, and other significant non-project non-labour costs are allocated to service categories by the Regulatory Accounting team using appropriate causal cost drivers, such as asset values or inventory transactions; and

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- Non-project costed labour (i.e. labour costs not directly charged to projects in accordance with sections 5.5.1, 5.5.2 or 5.5.3 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.

5.6.1 ABC SURVEYS

The ABC survey requires cost centre managers to accurately 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 (FTE) 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 (Transmission, Electricity Distribution and Gas Distribution)
- 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.

5.6.2 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.

"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.

AusNet Services Electricity Distribution Cost Allocation Method

5.6.3 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	Service/s Allocated to	Basis of Allocation/ Cost Driver	Method changed from periods of ESC pricing determination? Y/N
Finance & Strategy				
CFO	Costs of the office of the Chief Financial Officer	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated by ABC survey results.	N
Corporate Finance and Management Accounting	Statutory reporting, financial accounting, regulatory accounting, capex accounting and fixed asset accounting; and management accounting functions performed for operating and corporate divisions - reporting, budgeting, forecasting etc	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated by ABC survey, based on estimated staff time.	N
Treasury	Debt and equity raising and debt, liquidity and insurance management functions	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on basis of ABC survey, using estimated staff effort and asset values for the following functions - debt and equity raising, debt administration, liquidity management, insurance, reporting and compliance, and relationship management.	N
General Insurance Premiums	General insurance premiums relating to AusNet Services' Electricity Distribution business - Directors & Officers, motor vehicle, personal accident, travel	Standard Control Non Regulated	General insurances allocated on the basis of total business ABC Survey result, weighted by FTEs. <i>(Note: property and liability premiums applicable to the Electricity Distribution business, including bushfire liability, are directly attributed to Standard Control services only).</i>	Y
Shared Services	Accounts payable, billing and receivable, payroll, system support, and Head Office building services functions	Standard Control Alternative Control* Negotiated* Non Regulated	Costs are allocated on the basis of ABC survey, using estimated staff time.	N
Taxation	Management of taxation functions including compliance, planning and accounting	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey using the size of the legal entities in the tax lodgement program.	N
Program Management Office (PMO)	Portfolio management and reporting capability to improve works utilisation and delivery. Including management of projects and programs, reporting, strategic business requirements and data management.	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis being time effort across relevant PMO processes and functions.	N
Audit Fees	All external audit fees in relation to Statutory and Regulatory Accounts for the distribution business	Standard Control Non Regulated	For audit work not directly attributed, the basis for allocation is Network assets values and Regulated Revenues.	N
FBT	Employee related costs of fringe benefits tax, car leases and car parking for AusNet Services employees	Standard Control Non Regulated	Allocated on basis of total business ABC Survey result, weighted by FTEs.	N
Property Management, Levies and Charges	Management of operational and network properties and facilities	Standard Control Alternative Control Negotiated	Costs allocated on the basis of ABC survey. The causal basis is the number of properties managed (land easements, leases and land & buildings).	N
Procurement	Procurement contract establishment and management, fleet administration	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis being time spent on fleet management, and procurement and tendering.	N
Debtor Management Costs	Bad Debts Recovered, Bad Debts Expense, Doubtful Debts Expense and Debt Collection Fees	Standard Control Non Regulated	Based on the Debtors Trial Balance at period end. Debtors are directly attributable to each of the Distribution Businesses. Within the electricity DNSP, costs then allocated between service categories according to regulated /non regulated revenue split.	Y

AusNet Services Electricity Distribution Cost Allocation Method

Cost Subject to Allocation	Description	Service/s Allocated to	Basis of Allocation/ Cost Driver	Method changed from periods of ESC pricing determination? Y/N
People & Safety				
Human resources, OHS and IR	Human resource policies and strategy, health, safety, environment work practices and quality, and industrial relations	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis is estimated effort on these activities.	N
Customer Services	Costs related to the customer interface and enquiries function including: Investigations Ombudsman enquiries GSL/Reliability payments administration	Standard Control Alternative Control Negotiated	Costs allocated on the basis of ABC survey, using estimated effort on stakeholder relationship management, claims, complaints, damage recoveries, customer inquiries, administration support, and process improvements.	N
IT Strategy				
IT Strategy	IT strategy, architecture, portfolio, real time systems and IT Services	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis being time spent on the strategy and enterprise architecture functions provided to the business.	N
Other Corporate Services				
Office of the Managing Director	Costs for the office of the MD	Standard Control Alternative Control Negotiated Non Regulated	Allocated on basis of ABC Survey result.	N
Strategy & Business Development	Corporate planning, business development, sustainability functions	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. Causal basis is estimated time on corporate planning and business development functions.	N
General Counsel & Company Secretary	Legal and secretarial support for the AusNet Services business	Standard Control Alternative Control Negotiated Non Regulated	Costs are allocated on the basis of ABC survey result. The causal basis used is staff time basis represented by diary entries, notes and outputs produced.	N
Risk & Assurance	Internal audit functions, risk management, information security and regulatory compliance functions	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis is time effort in audit activities, risk management, regulatory compliance, business continuity and security and crisis management.	N
Asset Management				
Economic Regulation & Network Strategy	Management of the networks strategy and regulatory functions, including governance and compliance	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis being estimated time on functions.	N
Support and shared administrative costs of Asset Engineering and Project Engineering Departments	Engineering, design, drawings, cost benefit analysis, coordination of works requirements to support the Network and System Planning functions.	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. A number of causal drivers are used to allocate work group activities, including load growth, staff nos, annual budget program, and number of engineering standards for safety and regulatory obligations.	N
Connection Development	Management of retailer generated work requests and coordinating customer requests for new connections or upgraded connections	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis being estimated time effort on the functions including preparation of quotes, planning meetings and customer project reporting. Project-specific costs directly attributed to projects via timesheets or direct costing.	N
Logistics	Stores and inventory management	Standard Control Alternative Control Negotiated Non Regulated	Costs allocated on the basis of ABC survey. The causal basis being time spent on managing logistics, inventory and spares.	N

5.7 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 Work-In-Progress (WIP) (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.