



13 September 2018

Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Dear Warwick,

AusNet Electricity Services' Cost Allocation Methodology

In advance of the 2021-2025 Regulatory Proposal submission, AusNet Electricity Services Pty Limited (**AusNet Services**) has taken the opportunity to review its current cost allocation methodology (**CAM**).

Pursuant to the National Electricity Rules (**NER**) clause 6.15 (f), AusNet Services is permitted to amend its CAM from time to time, subject to AER approval. Under the Cost Allocation Guidelines (**the Guidelines**), the AER will only approve amendments to the CAM if AusNet Services can demonstrate that:

1. There has been a material change in its circumstances.
2. The amendment is necessary to effectively promote the cost allocation principles.
3. The resultant amended CAM gives effect to, and is consistent with, the Guidelines.
4. The amendment will not jeopardise the comparability of the resultant financial information with earlier information provided to the Australian Energy Regulator (**AER**).
5. AusNet Services quantify and demonstrate to the AER the impact of the proposed amendment.

AusNet Electricity Services' proposed revised CAM includes two key amendments:

- Update AusNet Services' organisational and corporate structures.
 - From an organisational perspective, internal restructures have resulted in changed divisional and operational structures.
 - From a corporate perspective, the AusNet Services Group has been delisted from the Singapore Exchange and the organisational structure has been unstapled.

- Services provided have been amended to ensure consistency and demonstrate alignment with the AER's Ring-Fencing Guideline. Changes made ensure the CAM is aligned with AusNet Services' Ring-fencing policy.

Other immaterial amendments have been made to enhance clarity or specificity of CAM details.

While the above changes have not had a significant impact on the quantum of costs allocated, to ensure the relevance of the CAM and to effectively promote the cost allocation principles, AusNet Services has revised its CAM subject to AER approval.

AusNet Services considers the proposed CAM changes meet the criteria in NER clause 6.15 (f). The amendments made are also considered to be in accordance with the Guidelines. AusNet Services confirms these changes do not impact the comparability of the financial information across periods.

In addition to the above, as communicated with the AER, AusNet Services has commenced a process to comprehensively review and amend the mechanism by which shared costs are allocated (i.e. via monthly Activity Based Costing (**ABC**) Surveys). The outcome of this process review will see the removal of ABC Surveys, the extraction of the underlying ABC Survey cost drivers and the application of these drivers to the shared cost pool in a way that doesn't involve ABC Surveys. This process change will not materially impact allocation outcomes (i.e. the quantum of costs allocated to each network businesses or the quantum of costs allocated to individual service classifications). AusNet Services will submit a revised CAM reflecting the above process change for AER approval during 2019, aiming for an effective date of 1 January 2020.

During the CAM revision process, AusNet Services has informally engaged with the AER to ensure the amended CAM is compliant with all relevant regulatory requirements. We appreciate the AER's guidance and explanations during this process.

Please find attached to this letter, AusNet Services' revised CAM. If you have any questions in relation to this matter, please contact Clare Thompson, Senior Finance Business Partner on 03 9695 6670.

Sincerely,

Tom Hallam
General Manager, Regulation and
Network Strategy
AusNet Services