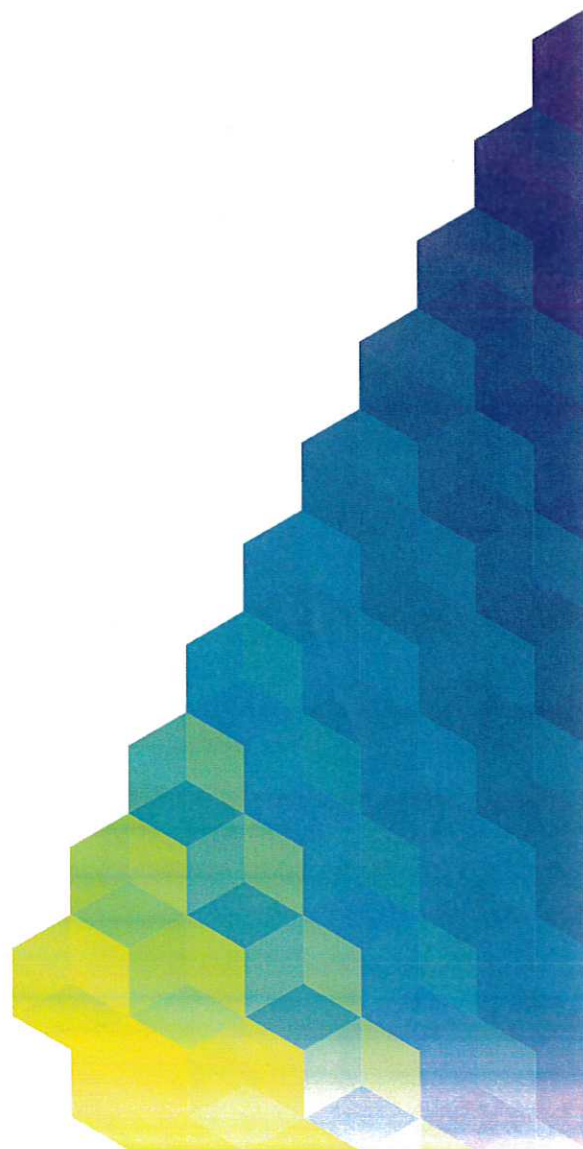


AusNet Services

Transmission Cost Allocation Methodology

October 2015



VERSION HISTORY

Version Number	Issue Date	Details of Amendment
0.0	31 March 2008	Proposed Methodology. Submission to AER Version 0.0
1.0	1 August 2008	Amendments at request of AER. Updated version for AER approval.
2.0	31 October 2015	Reflected changes in corporate and organisational structure, and the implementation of a new enterprise resource planning system

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1 INTRODUCTION

The National Electricity Rules (NER) requires Transmission Network Service Providers (TNSPs) to submit their proposed transmission network services cost allocation methodology (CAM) to the Australian Energy Regulator (AER) for approval. This document sets out AusNet Services' methodology for the allocation of costs to, and between, its electricity transmission network services.

The methodology has been developed in accordance with the requirements of the NER and the AER's Cost Allocation Guidelines for electricity TNSPs, dated September 2007.

There have been changes to AusNet Services' corporate and organisational structure, as well as related parties. Additionally, AusNet Services implemented an enterprise resource planning system in May 2015. While both these changes have not led to a significant impact on the quantum of costs allocated to Transmission, 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.

1.1 PURPOSE AND SCOPE OF THE COST ALLOCATION METHODOLOGY

AusNet Services' CAM documents the approach to allocating costs to the electricity transmission network business and between categories of electricity transmission network services, as required in clause 2.2 of the AER's Cost Allocation Guidelines. The documented methodology will be used in the preparation of capital and operating expenditure forecasts for revenue proposals and for annual regulatory reporting obligations (regulatory accounts).

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 transmission network services. The electricity transmission services provided by AusNet Services, the nature of costs associated with those services and the methodology for allocating these costs is set out in sections 2 and 3.

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 future amendments to its cost allocation methodology once approved by the AER.

1.2 ACCOUNTABILITIES AND RESPONSIBILITIES FOR THE COST ALLOCATION METHODOLOGY

Clause 3.2(3) of the AER's Cost Allocation Guidelines requires AusNet Services to include, within the cost allocation methodology document, details of the accountabilities for the document and responsibilities for updating, maintaining, applying and monitoring the CAM.

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	Accountability and/or Responsibility
Corporate Accounting Manager	• Implement the CAM and provide associated costing procedures and guidelines for staff • Update and maintain the CAM as required
Regulatory Accounting Team	• 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
Financial and management accounting teams	• Recognise and report financial information in accordance with accounting and cost allocation policies
Economic Regulation Manager	• Provide advice on design and 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 the CAM
Operational Managers	• Comply with the CAM and support its application within relevant area of responsibility
All Staff	• Comply with all relevant costing procedures and guidelines issued by the Corporate Accounting Division to ensure that AusNet Services complies with the approved CAM

While significant responsibility lies with 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.

1.3 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 and the regulatory accounts, derived from the application of the CAM.

AusNet Services Transmission Cost Allocation Methodology

AusNet Services will further monitor its compliance with the CAM and the AER's cost allocation guidelines through the following:

- in processing and approving costing entries, Finance staff review the coding of costs;
- the annual review of cost allocations, templates, documentation and work papers by the Corporate Accounting Manager and Economic Regulation Manager during the preparation of regulatory accounting statements;
- management activity based costing surveys are subject to monthly review by the Regulatory Accounting team
- cost allocation models are subject to annual review by the Regulatory Accounting Team and subject to external audit during the preparation of the annual regulatory accounting statements;
- 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 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;
- where required by the AER, financial information prepared under the CAM shall be subject to independent audit.

1.4 RECORDS MANAGEMENT

Accounting Records

AusNet Services records its costs in accordance with all applicable accounting standards and the 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.

Working Papers

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

Record retention

In accordance with clause 3.2(7) of the Cost Allocation Guidelines, AusNet Services will maintain the following records in order to demonstrate compliance with the guideline and to facilitate audit/verification as required:

- source documents, general ledger, trial balances, transaction listings and cost allocation working papers for a minimum of seven years; and
- supporting work papers showing the attribution or allocation of costs to, or between, categories of transmission services in accordance with the approved cost allocation methodology.

AusNet Services will maintain these records within its former integrated financial and asset management, its current enterprise resource planning system, and supporting analytical spreadsheet packages.

AusNet Services Transmission Cost Allocation Methodology

1.5 COMMENCEMENT DATE, VERSION HISTORY AND PUBLICATION

Commencement date

Subject to AER approval, the CAM will commence from the date of publication and will apply to AusNet Services' regulatory accounting information for regulatory periods commencing with the financial year ended 31 March 2016.

Version history and date of issue

The NER provides for the amendment of the methodology 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.

Minor updates will be designated as iterations of the approved document, e.g. minor wording changes to supporting text will be designated as version 1.1. More comprehensive changes will be given a new version number, e.g. significant changes to corporate structure or the allocation of particular costs will be designated as version 2.0.

Availability

In accordance with the requirements of clause 6A.19.4(h) of the NER, AusNet Services will maintain a current copy of the approved cost allocation methodology on its website www.ausnetservices.com.au.

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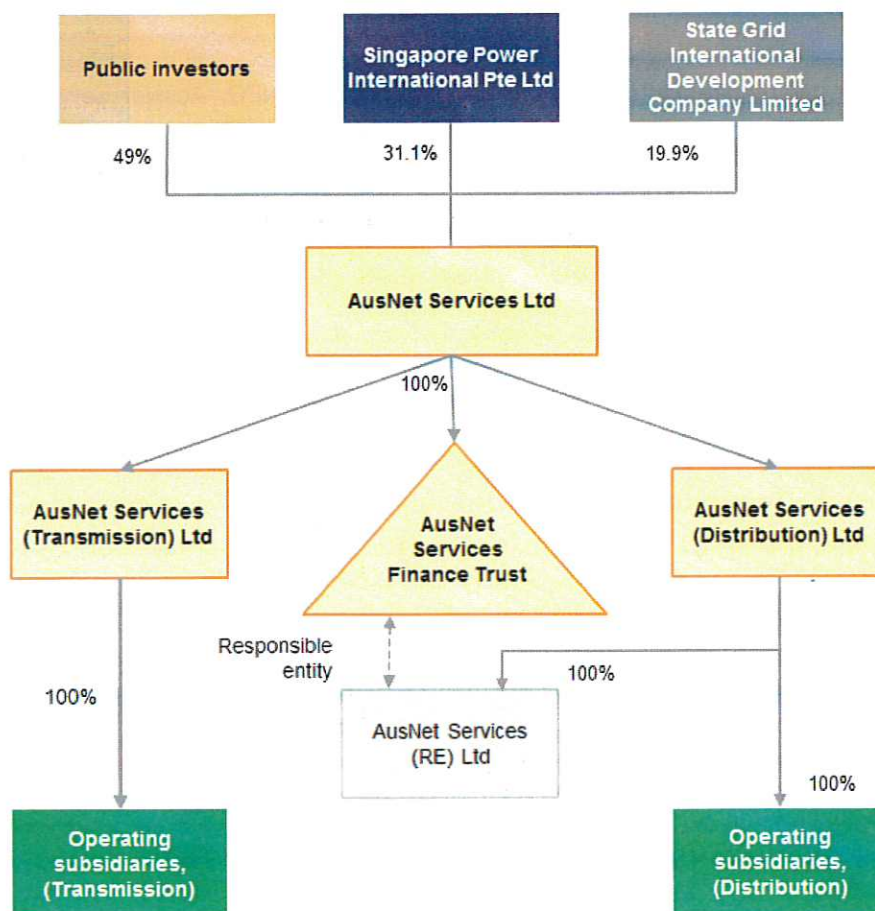
2 AUSNET SERVICES' ELECTRICITY TRANSMISSION SERVICES

2.1 CORPORATE STRUCTURE

Clause 3.2(4) of the AER's cost allocation guidelines requires that a description of the TNSPs corporate and organisational structure be provided within the CAM.

AusNet Services Ltd 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' 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' transmission services and associated transmission regulatory reporting, are contained within the operating subsidiary of AusNet Services (Transmission) Ltd, being AusNet Transmission Group Pty Ltd.

2.2 OPERATIONAL STRUCTURE

AusNet Services' integrated operational structure provides the full range of asset management, network operations and corporate services to the group's three regulated network businesses.

AusNet Services Transmission Cost Allocation Methodology

Spanning across both Transmission and Distribution, AusNet Services' services and costs are captured in the following Divisions:

- Asset Management
- Service Delivery
- Select Solutions
- Corporate Service Groups
 - Office of the Managing Director
 - Information, Communications & Technology Services
 - Finance
 - Strategy & Business Development
 - General Counsel & Company Secretary
 - People & Safety
 - Risk & Assurance

2.3 CATEGORIES OF ELECTRICITY TRANSMISSION SERVICES

Clause 3.2(5) of the AER's cost allocation guidelines requires that AusNet Services specify the categories of transmission services that it provides, to which costs are to be attributed or allocated, and the types of persons to which the services are provided.

In accordance with this requirement the transmission services that AusNet Services provides and the customers of those services are set out below:

- Regulated services:
 - Prescribed transmission services are shared transmission services at standard service levels and connection services provided to generators, distribution networks and high voltage customers;
 - Excluded prescribed transmission services, which differ from prescribed transmission services only in terms of timing. They represent services that are commissioned since the previous regulatory determination and, as such, they are not reflected within the current period's revenue determination (i.e. they are 'excluded' from the regulated asset base and revenue determination until the next regulatory period); and
 - Negotiated transmission services are connection services provided to transmission users (generators and customers), and shared transmission services provided at levels exceeding standard service levels.
- Non-regulated transmission services are those that AusNet Services is not obliged to provide and which are capable of being provided on a contestable basis.
- 'Not-Allocated' costs are those that are not required to be allocated to the transmission service segments in the regulatory financial statements (e.g. financing costs and taxation expense).

AusNet Services Transmission Cost Allocation Methodology

The above categories of transmission services reflect the segments reported in AusNet Services' annual regulatory accounts.

3 COST ALLOCATION PRINCIPLES

3.1 OVERVIEW

Clause 3.2(6) of the AER's cost allocation guidelines requires details of the principles and policies used by AusNet Services for attributing costs directly to, or allocating costs between, categories of transmission services. These principles and policies must meet the requirements of clause 2.2 of the guidelines.

In accordance with this requirement, AusNet Services confirms that the following principles underpin the proposed cost allocation methodology and are used to attribute costs directly to, or to allocate costs between, categories of transmission services:

- costs are directly attributed to, or allocated between, categories of transmission 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 transmission service will be attributed to that service;
- shared costs incurred in providing several categories of transmission 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;
- costs will not be allocated more than once;
- the principles, policies and approach used to attribute costs directly to, or allocate costs between, categories of transmission services are consistent with the transmission ring-fencing guidelines; and
- costs that have been attributed or allocated to prescribed transmission services have not and will not be reattributed or reallocated to negotiated transmission services.

3.2 AUSNET SERVICES' 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 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 methodology 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 costing 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 review; and
- cost allocation methodology must maintain consistency between reporting periods.

AusNet Services Transmission Cost Allocation Methodology

3.3 AUSNET SERVICES' COSTING OVERVIEW

AusNet Services implemented an enterprise resource planning system in May 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, 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.

3.4 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 labour timesheets, or allocated (for shared support services) on the basis of an activity based costing approach (causal basis);
- Invoiced contract and services costs – through direct costing / attribution to asset related work codes and activities via the enterprise resource planning 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 coding) due to the nature of the cost, e.g. Availability Rebate, Easement Tax, etc.

A high level flow diagram for these cost types, and the processes for their attribution, is provided in Appendix A.

3.5 COST ALLOCATION PROCESSES

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

Directly Attributable Costs

- Direct Cost Attribution; and
- Timesheets.

Shared/Allocated Costs

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

3.5.1 DIRECT COST ATTRIBUTION

Wherever possible, costs are directly attributed to assets and 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 'spender' and the particular assets and/or service, then these costs are directly attributed to those assets and/or services. Within this

AusNet Services Transmission Cost Allocation Methodology

context, the closer the officer 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. This applies irrespective of the type of expense.

AusNet Services' enterprise resource planning system has been developed to assist project managers to track and report detailed project cost information, based on the use of work orders, project codes and project types.

3.5.2 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 number of projects and activities may be worked on during the period, rather than the 'dedicated' support or service situation referred to in section 3.5.1 above.

3.5.3 ACTIVITY BASED COSTING

AusNet Services employs an Activity Based Costing (ABC) approach to allocate those remaining costs that are not directly attributed via the methods discussed above. 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. 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 employee 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 a service matrix covering:

- Networks (Transmission, Electricity Distribution, Gas Distribution and Select Solutions External)
- Activity expenditure types (operating and capital expenditure)
- Lines of service (Regulated and Non-Regulated).

The ABC survey supports two main activities:

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

3.6 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 at the end of each reporting period.

AusNet Services Transmission Cost Allocation Methodology

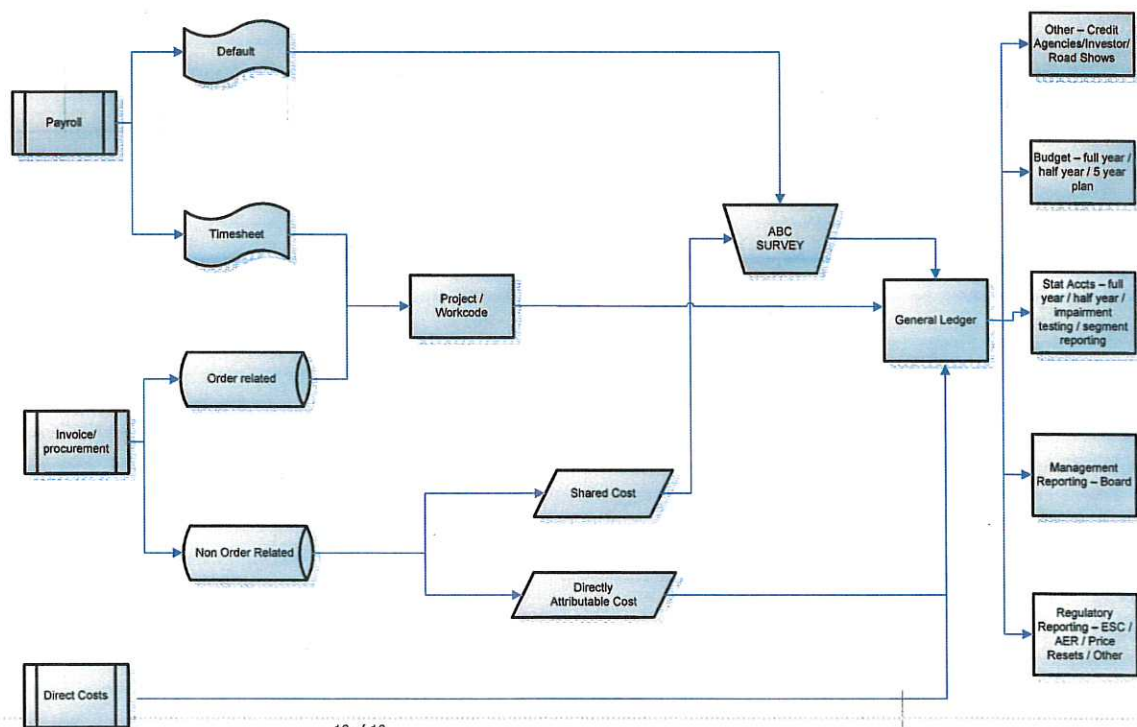
A network-specific overhead rate is applied to all direct capital expenditure for that network (i.e. transmission, electricity or gas) which means that the application of capitalised overheads to capital projects is in direct proportion to the direct capital expenditure incurred against the project.

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 the ABC Survey results.

AusNet Services Transmission Cost Allocation Methodology

APPENDIX A - AUSNET SERVICES COST FLOW (OCTOBER 2015)



AusNet Services Transmission Cost Allocation Methodology

4 DIRECTORS' STATEMENT

We, as Directors of AusNet Transmission Group Pty Ltd, confirm that:

- This document sets out AusNet Services' Transmission Cost Allocation Methodology which AusNet Services is required to prepare and submit to the AER for approval in accordance with clause 6A.19 of the National Electricity Rules; and
- It is the intention of the Directors to comply with this cost allocation methodology, as approved by the AER.

We note that clause 3.2(10) of the AER's Transmission Cost Allocation Guidelines requires two directors of AusNet Services to confirm that the information contained in the Cost Allocation Methodology is accurate. AusNet Services notes that it is not in general terms feasible to give an opinion on whether a methodology is accurate in isolation from and in advance of the application of that methodology to future submissions. However, AusNet Services confirms its intention to provide appropriate directors' responsibility statements as may be required by the AER Guidelines, regarding the preparation of information and submissions that the AER requires to be prepared using this Cost Allocation Methodology.

Signed

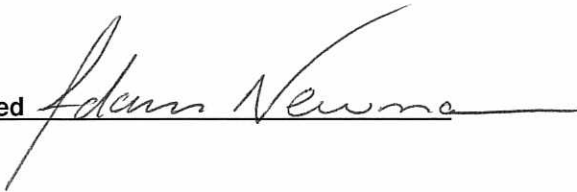


Name: Mr Nino Ficca

Date: 27 October 2015

Director

Signed



Name: Mr Adam Newman

Date: 27 October 2015

Director