



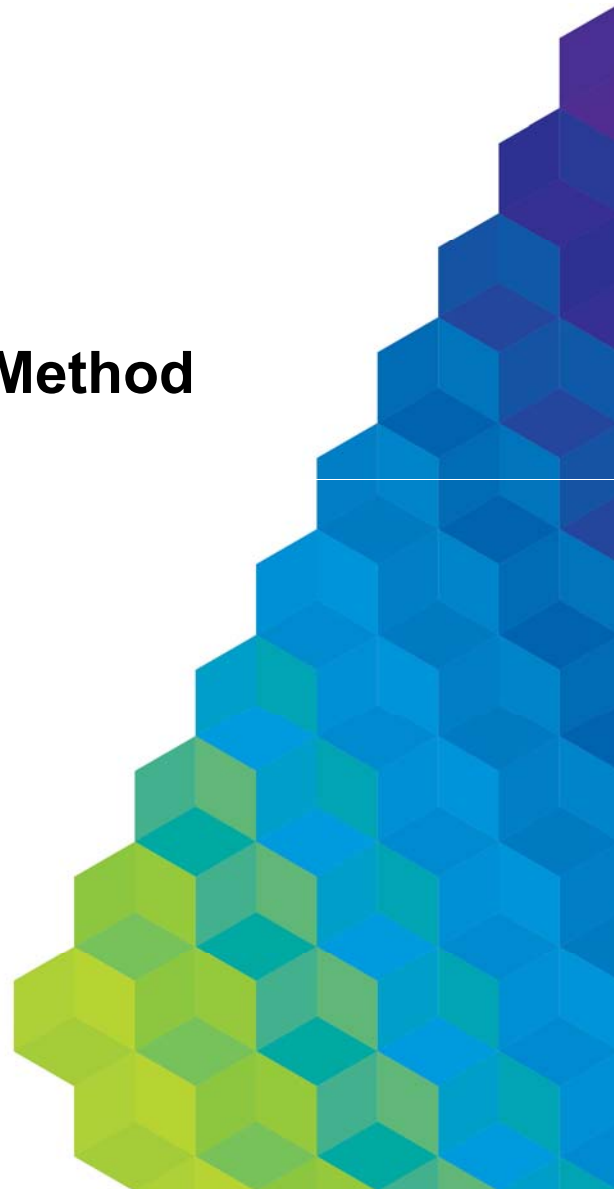
AusNet Electricity Services Pty Limited

Electricity Distribution Price Review 2022-26

Revised Regulatory Proposal

Appendix B: Cost Allocation Method

3 December 2020



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	September 2018	Reflected changes in the corporate and organisational structure and the Distribution Services provided
3.1	September 2019	Reflected changes in the shared cost allocation approach and in the operational structure

Table of Contents

VERSION HISTORY	2
TABLE OF CONTENTS	3
1 BACKGROUND	4
2 APPLICATION AND MAINTENANCE OF THE COST ALLOCATION METHOD	5
2.1 NATURE, SCOPE AND PURPOSE	5
2.2 ACCOUNTABILITIES AND RESPONSIBILITIES	6
2.3 COMPLIANCE MONITORING	7
2.4 RECORDS MAINTENANCE	8
2.5 COMMENCEMENT DATE, VERSION HISTORY AND PUBLICATION	9
3 AUSNET SERVICES' ELECTRICITY DISTRIBUTION SERVICES	10
3.1 CORPORATE STRUCTURE	10
3.2 OPERATIONAL STRUCTURE	11
3.3 CATEGORIES OF ELECTRICITY DISTRIBUTION SERVICES	12
4 COST ALLOCATION PRINCIPLES AND POLICIES	13
4.1 COSTING OVERVIEW	13
4.2 SUMMARY OF COST TYPES	13
5 DETAILED PRINCIPLES & POLICIES FOR ATTRIBUTING & ALLOCATING COSTS	14
5.1 DIRECT COST ATTRIBUTION	14
5.1.1 Project Costing	15
5.1.2 Direct Account Attribution	16
5.2 SHARED OR ALLOCATED COSTS	17
5.2.1 Determination and Application of Cost Drivers	17
5.2.2 Cost Items Subject to Cost Driver Allocation	18
5.2.3 Incremental Costing approach for Alternative Control Services	23
5.3 OVERHEAD CAPITALISATION	23

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 the approach employed by AusNet Services to allocate shared costs. Previously an Activity Based Costing (ABC) Survey approach was used whereby Managers across the business completed a monthly survey identifying and quantifying cost drivers for the allocation of shared costs. This approach has been replaced with a cost driver approach whereby key causal drivers for each cost centre (functional area) have been identified and allocations will be calculated by the Finance team on a quarterly basis. The new approach leverages previous ABC Survey cost driver information but the process is now centrally calculated and managed by Finance.

In addition to changes in the shared cost allocation approach, there have also been amendments to AusNet Services' operational structure.

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.

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 following table sets out the key accountabilities and responsibilities for updating, maintaining, applying and monitoring 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) 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, 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;
- Quarterly calculation, review and true up of cost allocations by the Finance team;
- Cost allocation models are subject to external audit during the preparation and audit of the annual RINs and Ring Fencing submissions;
- 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 shared cost allocation process and outcomes by:

- The RES Finance Team reviewing compliance with the process including undertaking quarterly internal reviews of cost allocations and cost drivers, ensuring any material movements identified in cost allocations are appropriately explained or corrected (if errors are detected) and ensuring cost drivers remain relevant;
- Ensuring cost allocations are subject to external audit review for the Distribution and Transmission Regulatory Accounts, as well as for the Distribution Ring Fencing submissions;
- Ensuring signed Management Representations including representations relating to 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 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. Detailed cost reports (general ledger, project based and allocation based) are generated from the integrated financial and asset management system and supporting analytical spreadsheet packages.

Records and work papers include:

- source invoices, vouchers, management costing surveys, general ledger reports, trial balances, transaction listings; and
- the 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

As part of AusNet Services' external audit of the regulatory accounts, all supporting workpapers and reports are made available to the audit teams. Working papers provided include supporting calculations (where appropriate) and cost allocation models are cross checked to assure the veracity of the information supplied.

AusNet Services' cost allocation models 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 2020 and will be applied in the development of AusNet Services' building block proposal for the 2021-2025 regulatory 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.

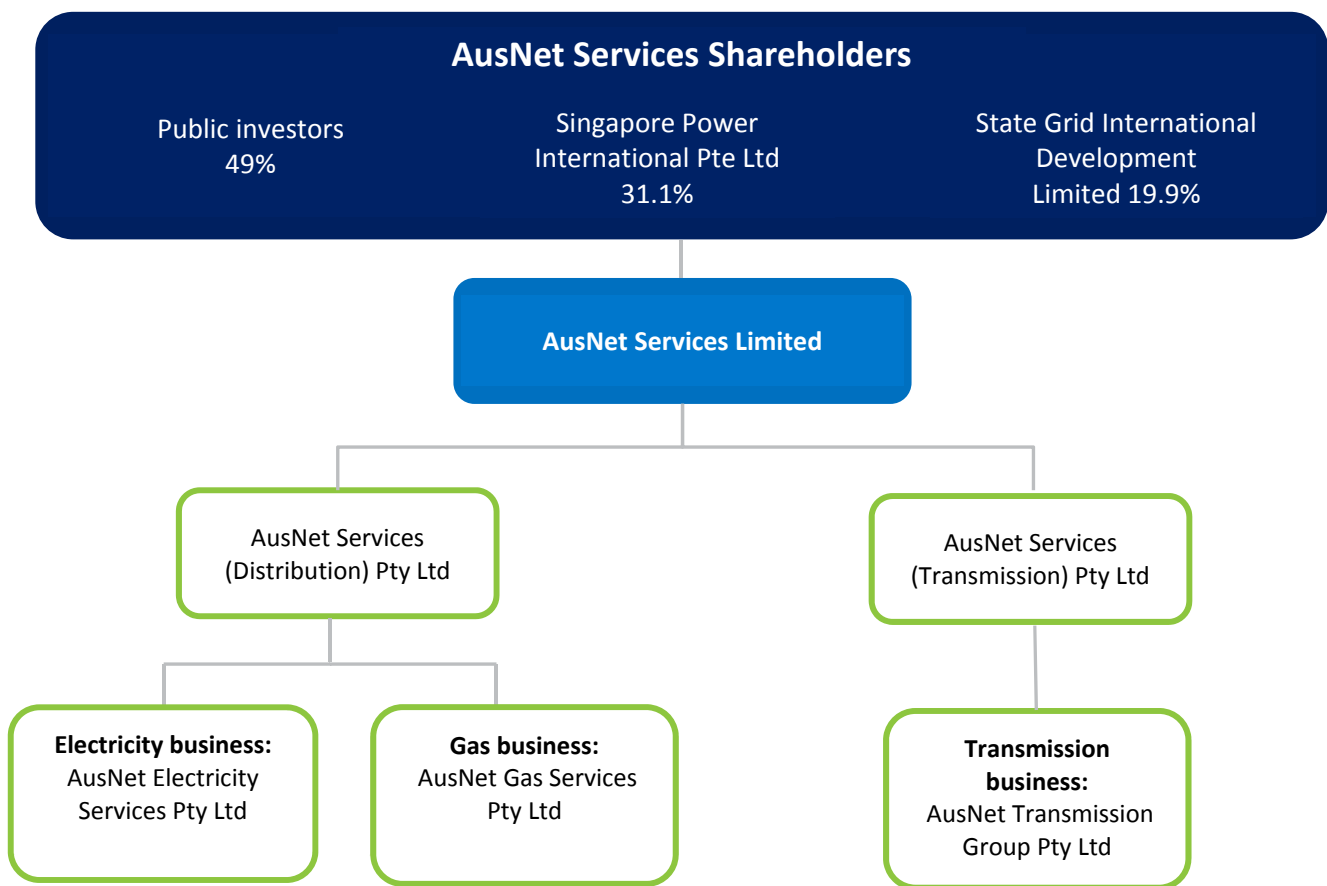
3 AusNet Services' Electricity Distribution Services

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



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:**
 - Includes: Regulation; Network Engineering; Business Delivery; Customer Experience; Electricity Distribution (business owner function); Gas Distribution (business owner function); and Electricity Transmission (business owner function).
 - Responsible for the stewardship of AusNet Services' regulated energy networks and setting the strategic direction of the regulated networks.
- **Operations and Services:**
 - Includes: Delivery and Customer Operations; and Planning, Performance and Operations.
 - Responsible for delivery of all regulated, network asset related works and field services, including customer projects.
- **Mondo Power (Mondo):**
 - Responsible for delivery of regulated and unregulated niche asset services to AusNet Services' regulated networks (metering and technical services) and external customers. Services also 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 Corporate Affairs.

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** - Generally, these services are necessary to electricity supply and cannot be separately supplied to an individual customer. Examples include planning, design and construction of the distribution network and maintenance and operation of the distribution network. These services are provided to every customer connected to the electricity distribution network.
- **Alternative Control Services** - Generally, these are services that are customer specific or requested by a specific customer. Examples include metering services, auxiliary meter services and operation and maintenance of AusNet Services' public lighting assets. These services may be provided any customer seeking non-standard services.
- **Negotiated Distribution Services** - Services where consumers and network service providers can negotiate the price of a service. These services are only provided where a Ring Fencing waiver has been obtained from the AER. These services would generally be provided to large customers, government agencies or developers.
- **Unregulated Distribution Services** - Services that are distribution services but are not regulated by the AER. This classification also includes services offered in accordance with the AER's Shared Asset Guideline. These services are only provided where a Ring Fencing waiver has been obtained from the AER.
- **Non regulated (non-distribution) Services** are non-distribution services that AusNet Services is generally prohibited from providing. These services are only provided where a Ring Fencing waiver has been obtained from the AER.

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 provides outcomes that are materially 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) using a cost driver 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 using a cost driver 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, licence fees, network charges).

5 Detailed Principles & Policies for Attributing & Allocating Costs

AusNet Services allocates costs directly to projects, assets and services where possible and appropriate. Where costs are shared, cost drivers are employed 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.

5.1 Direct Cost Attribution

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 is a clear 'line of sight' between the costs incurred and the particular assets and/or service, costs are directly attributed to those assets and/or service categories.

The following processes are used to support AusNet Services' direct cost allocation:

1. Project Costing

Labour Timesheets

- AusNet Services' employ an online timesheet facility to track and charge hours worked to specific projects and activities (capital or operating) and in turn, to service categories. Staff working on 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.

Materials, Contractor and Third Party Costs

- Materials, contractor costs and other accounts payable transactions can be directly mapped to specific projects and activities at the source transaction.

Manual Project Journals (cost transfers)

- 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.

2. Direct Attribution

Accounts

- Certain general ledger accounts are directly mapped or directly costed via accounts payable to networks and service classifications.

Functional Areas (cost centres)

- Certain functional areas are directly mapped (via cost assessment) to networks/businesses and service classifications. Examples include the REFCL (rapid earth fault current limiter) cost centre which is directly assessed to Electricity standard control capex and the Meter Reading cost centre which is directly assessed to Electricity Alternative Control opex. Where the costs of a particular function area cannot be directly attributed to a service category, they are included in the shared cost pool.

5.1.1 Project Costing

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

Cost Items subject to Project Costing				
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 on-costs and employee allowances	Standard rates (specific to job type) directly attributed by employee timesheets. to jobs/work orders.	Standard Control Alternative Control Negotiated Unregulated Non Regulated	N
Materials	Includes inventory and non-inventory (irregular) items	Directly attributed to jobs/work orders at either average cost (for items in inventory) or based on the purchase order mapped to the particular project.	Standard Control Alternative Control Negotiated Unregulated Non Regulated	N
Contractor, Third Party and Other Costs	Includes costs associated with the provision of services by external parties	Directly attributed to jobs/work orders, or directly attributed by General Ledger account mapping, or directly attributable via purchase order/invoice.	Standard Control Alternative Control Negotiated Unregulated Non Regulated	N

To support the attribution and allocation of costs, AusNet Services uses a project 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 linked to service classifications.

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 list of Operating & Maintenance work codes are presently used to attribute costs directly to categories of distribution services:

Work Code	Service Classification
Network Maintenance: Preventative Maintenance, Corrective Maintenance, Emergency Maintenance, Inspection, Vegetation Management, System Control, Despatch Services and Safety, Environmental, Legal, Security & Compliance	Standard Control
Non-network: Information Technology, Other Non Network	Standard Control
Meter Reading, Metering, Special Meter Reading	Alternative Control
Other Opex	Standard Control
Negotiated Services	Negotiated Services
Unregulated Works	Non Regulated

5.1.2 Direct Account 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:

Specific Cost Items subject to Direct Attribution				
Cost Types	Description	Basis of Attribution / Cost Driver	Service/s Attributed to in the Electricity business	Method changed from previous periods?
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.	Standard Control	N
TUoS Fees	Transmission network connection and use of system	GL Accounts directly attributed.	Standard Control	N
Network Support Payments & 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.	Standard Control	N
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	N
Site Security Costs	Costs associated with security at AusNet Services' stations/sites	Directly attributed to the regulated network to which the site/property 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 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	N

5.2 Shared or Allocated Costs

Shared or allocated costs are the remaining costs not directly attributed to service classifications (via the methods discussed above). These costs are initially pooled against cost centres (relating to functional areas) and then allocated between the relevant AusNet Services businesses and service classifications as follows:

- Project-related expenditure that is not possible to directly project cost (e.g. motor vehicle operating costs) are allocated to service categories by the RES Finance team using an appropriate cost driver, such as labour hours; and
- All other shared or allocated costs, including general labour, administrative and overhead costs, are subject to allocation via an identified cost driver for the relevant functional cost centre.

5.2.1 Determination and Application of Cost Drivers

Causal cost drivers are applied to allocate any remaining shared, unallocated costs. Cost drivers have been identified for each cost centre based on the nature of the activities performed by the cost centre. Where multiple cost drivers exist, the most appropriate driver is applied.

The Finance team calculates cost driver allocations/percentages on a quarterly basis. A true up process is also performed to ensure that allocations reflect the most accurate information as possible. It should be noted that although the allocation percentages may change each quarter, the cost drivers do not change.

Cost drivers provide allocations to:

- Businesses (Electricity Transmission, Electricity Distribution, Gas Distribution and Mondo);
- Activity expenditure types (operating and capital expenditure); and
- Service classifications.

It is noted that shared costs are allocated to standard control services (in the regulated Electricity business), haulage services (in the regulated Gas business), prescribed transmission services and non-regulated services (in the Transmission business) and to Mondo (the non-regulated legal entity). Refer to 5.2.3 for discussion in relation to Electricity alternative control services.

To determine cost drivers, a cascade of three approaches is applied:

1. **Timesheeting:** For cost centres that complete timesheets and where those timesheets cover the majority of the cost centre's available time, the cost driver applied to any remaining, unallocated costs is the timesheeting splits of the cost centre.
2. **Financial or Non-Financial Metrics:** For cost centres where the unallocated costs relate to business support activities that are driven by or closely associated with a financial or non-financial metric (e.g. EBITDA, Revenue, RAB value, Capex Program expenditure, Works Program expenditure, specific projects, Customer Numbers, etc.), the cost driver is the relevant financial or non-financial metric/s.
3. **Average of Other Cost Centres' Allocations:** For Management cost centres, cost drivers are based on the average cost allocations of the cost centres within their reporting hierarchy. For Executive Management cost centres, drivers are based on company-wide metrics (such as Revenue and EBITDA).

The cost driver process enables:

- Shared cost expenditure to be split to meet the requirements of regulatory reporting, statutory segment reporting and impairment testing; and
- The derivation of rates for capitalising reasonable business overheads to new constructed assets in accordance with accounting standards and internal policies.

5.2.2 Cost Items Subject to Cost Driver Allocation

The following table presents a high level breakdown of the cost centres that are subject to cost driver allocation, the basis for the allocation and the distribution service categories to which the costs are allocated:

Cost Subject Allocation	Centre to	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?*
Finance						
Group Finance, RES Finance		Statutory reporting, regulatory reporting, accounting policy, corporate reporting, asset accounting, accounting services & financial management of the regulated businesses	Costs allocated based on Revenue and Asset value splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Treasury		Responsible for treasury operations, including debt refinancing and management of financial risk as well as insurance management	Costs allocated based on insurance splits, asset values and debt splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Procurement		Responsible for procurement activities including fleet management, strategic sourcing and Operational Procurement and Accounts Payable	Costs allocated based on the split of expenditure requiring procurement services.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Corporate Finance		Includes group financial planning & budgeting and financial data analytics	Costs allocated based on dedicated FTEs using a combination of company revenue, operating costs and projects.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Tax & Investor Relations		Responsible for tax and investor relation activities	Costs allocated based on dedicated FTEs using a combination of company revenue, operating costs, capital costs and projects.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Performance Management Review		Accountable for Portfolio planning, prioritisation and governance	Costs allocated based on the capital expenditure splits in the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Property Services		Property management activities and lease (opex) costs	Property management costs allocated based on a combination of company revenue and special projects. Operating lease costs are allocated based on the site usage.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y

AusNet Electricity Services Pty Limited | Cost Allocation Method | September 2019

Cost Subject Allocation	Centre to	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?*
Governance						
Risk and Internal Audit		Risk Management, Internal Audit and Compliance	Costs allocated based on a combination of capital activities and EBITDA.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Legal and Company Secretary		Legal and Company Secretary	Costs allocated based on equal weighting of the Procurement cost centre allocation and the Managing Director cost centre allocation.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Strategy & Transformation						
Strategy & Planning		Corporate strategy & planning	Costs allocated based on the organisation's strategic pillars which can be attributed to a network and service. Where a pillar relates to more than one network or service, a combination of the RAB split and the Revenue split is used.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Technology						
Technology		Strategy & architecture, operation support, security, digital & innovation	Costs allocated based on the split of IT direct project expenditure.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
People, Safety & Corporate Affairs (PS&C)						
Health, Safety, Environment and Quality		Safety compliance and training	Costs allocated to the Non Regulated business based on dedicated headcount. Residual allocation based on the works program splits of the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
People and Safety		Workplace relations, remuneration, and benefits, people and change	Costs allocated to the Non Regulated business based on dedicated FTEs. Residual allocation based the Revenue splits of the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Corporate Affairs		Corporate affairs and corporate communications	Costs allocated based on the organisational Revenue splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y

AusNet Electricity Services Pty Limited | Cost Allocation Method | September 2019

Cost Subject Allocation	Centre to	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?*
Building Services		Building management activities and site running costs.	Site costs are allocated based on usage (for all items where there is a direct line of sight to a network and service). The residual costs (Building management overhead costs) are allocated in the same proportions as the running costs.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Regulated Energy Services						
EGM – Regulated Energy Services		Office of the EGM - RES	Costs allocated based on EBITDA and capital expenditure splits for the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Network Engineering		Network Assets, Network Innovation, Network Performance & Intelligence, REFCL, Networks Planning	Costs allocated based on direct project costs, asset values, capital and operating expenditure splits for the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Regulation		Economic Regulation	Costs allocated based on headcount dedicated to proposal activity, industry development (sub-allocation based on RAB and Revenue splits) and regulatory project work.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Regulation		Network Safety, Network Strategy	Costs allocated based on the capital and operating expenditure split of the respective regulated businesses and strategic and business activities undertaken.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Customer Experience		Customer experience	Costs allocated based on customer numbers across the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Regulated Business Owners: Electricity, Gas & Transmission		General management of the network businesses, strategy and projects	Costs allocated based on the capital and operating expenditure split of the respective regulated businesses and strategic activities undertaken.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Business Delivery		Business delivery works	Costs allocated based on the resourcing of the program of works (headcount).	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Energy Connections		Energy connections, generator enquiries	Cost allocated based on energy connection activities.	Standard Control	Electricity Distribution Electricity Transmission	Y

AusNet Electricity Services Pty Limited | Cost Allocation Method | September 2019

Cost Subject Allocation	Centre to	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?*
Metering Services		Metering services	Costs allocated based on Electricity Distribution capital and operating expenditure splits. Functional areas dedicated to alternative control services are directly attributed.	Standard Control	Electricity Distribution Gas Distribution	Y
Revenue Management		Revenue management activities, billings, etc.	Costs allocated based on billings and the volume of managed exceptions.	Standard Control	Electricity Distribution Gas Distribution	Y
Operations and Services						
EGM – Operations and Services		Office of the EGM – Operations and Services	Costs allocated based on EBITDA and capital expenditure splits for the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Planning performance and operations		CEOT, Scheduling, Planning & Operational Analytics, Network Access Planning, Inventory	Allocations based on direct cost splits (capex and opex).	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Scheduling		Scheduling (all regions)	Allocations based on scheduled work reports.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Customer		Customer & Community relations, Customer Services	Allocations based on customer contact centre reports and financial data. The management cost centre is allocated based on an average of the teams' allocation. Costs are allocated to Alternative control where there is a direct line of sight only. See 5.2.3 below.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y
Delivery		Major Projects (Capital Delivery), Maintenance Delivery & Vegetation Management	For most cost centres, costs are allocated based on timesheet splits. For contractor cost centres (e.g. Downer) costs are allocated based on contractor project splits. Management cost centres are allocated based on the works program and capital expenditure splits of the regulated businesses.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission	Y

AusNet Electricity Services Pty Limited | Cost Allocation Method | September 2019

Cost Subject Allocation	Centre to	Description	Basis of Attribution - Cost Driver	Service/s Attributed to in the Electricity business	Businesses attributed to in the AusNet Services Group	Method changed from previous periods?*
Other						
Office of the Managing Director		Costs for the office of the MD	Costs allocated based on Revenue splits.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y
Executive Management		Costs of the office of the Executive Management	Costs allocated based on the average of reporting line cost centre allocations.	Standard Control	Electricity Distribution Gas Distribution Electricity Transmission Non-Regulated Business	Y

*The methodology has changed - in that the ABC Survey process has been removed, however allocations have been replicated using the cost driver process, with no overall material impact on the quantum of costs allocated to Electricity Distribution.

5.2.3 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 5.3 for further details).

AusNet Services does not allocate shared operating costs to Alternative Control operating services but instead applies an incremental costing approach which attributes costs only where there is a 'direct line of sight' to the Alternative Control service 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.

5.3 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 policies, the overhead capitalisation process references the cost driver approach. This ensures 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 cost driver for the cost centre allocates a percentage of cost 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 cost driver allocations.