

# Endeavour Energy

## Cost Allocation Method

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November 2013

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Version Number	Date Modified	Nature of Variation
Version 2.1	November 2013	Draft CAM lodged for compliance review with the AER Cost Allocation Guideline
Version 2.0	August 2012	Draft CAM lodged to meet compliance with the National Electricity Rules
Version 1.0	31 January 2008	CAM lodged and approved by the AER under the Transitional Rules for NSW

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## 1.0 INTRODUCTION

### 1.1 BACKGROUND

Endeavour Energy (Endeavour) is a New South Wales State-owned energy corporation, established under the *Energy Services Corporations Act 1995 (NSW)* and the *State Owned Corporations Act 1989 (NSW)*.

Endeavour Energy owns and manages the electricity distribution network across Sydney's Greater West, Blue Mountains, Southern Highlands and the Illawarra, spanning 24,500 square kilometres and covering 2.2 million people in households and businesses across the area.

Following the retail reform process completed in 2011, Endeavour is now a stand-alone Network business. This reform has several implications for Endeavour Energy's Cost Allocation Method (CAM).

The transition to a network only business materially simplifies the CAM process, and although the drivers of cost allocations remain unchanged, the percentage value of the residual costs to be allocated to the standard control services necessarily increases, as was recognised in the AER's decision on Endeavour Energy's retail pass through event in March 2012.

In addition, several areas of costs that have been reported previously are expected to be materially reduced over time as a result of the retail reforms in areas such as advertising, marketing & promotions and customer service.

It is noted that this structure is expected to be revised in line with the structural and efficiency reform program initiated by the NSW Government. Although these reforms are expected to deliver efficiency outcomes across the three NSW Distribution Network Service Providers (DNSPs), it is not expected to have any material impact on this cost allocation method, as Endeavour Energy's allocation approach is based on functional activities rather than business structures. Consequently any cost sharing arrangements arising from changes to the industry structure is expected to be consistent with this CAM.

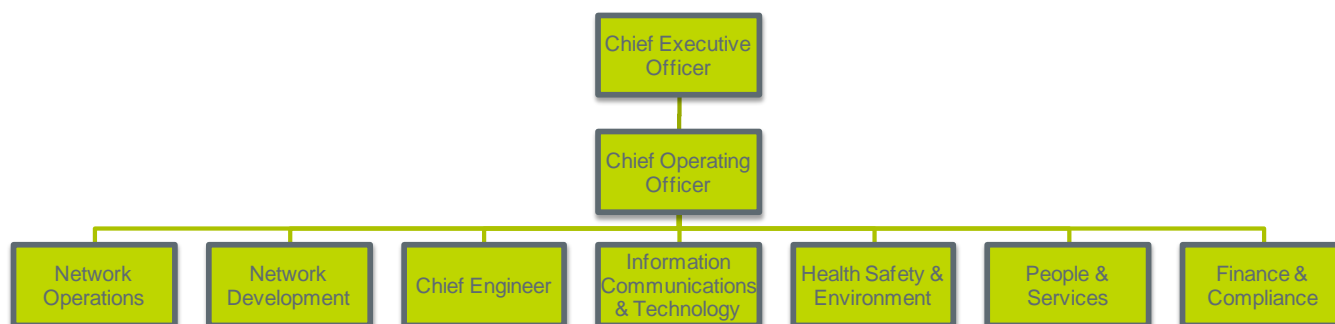
This document contains detailed principles and policies for attributing costs to, or allocating costs between, the categories of distribution services Endeavour Energy provides.

Endeavour Energy is seeking approval from the AER to apply the revised CAM from 1 July 2014.

## 1.2 ORGANISATIONAL STRUCTURE

Endeavour delivers its business activities through seven organisation units, as shown in the organisational structure in the figure below.

**Figure 1: Endeavour's organisational structure**



In March 2012, the NSW Government announced a reform of the electricity distribution networks in NSW. As part of the reform, all three NSW DNSP's will continue to exist separately, but the reform will establish a new unincorporated joint venture entity, "Networks NSW", to provide a governance framework consistently across the three NSW DNSPs.

The final organisational structure of the entity is unknown as at the date of submitting this CAM to the AER, however it is expected that Endeavour Energy's organisational structure and responsibilities as presented above are unlikely to change as the fundamental business will remain the same.

Although Endeavour Energy's organisational structure may change, Endeavour Energy will continue to apply the allocation principles and policies as outlined in this document for attributing costs directly to, or allocating costs between, the relevant categories of services provided.

The reform aims to reduce costs at the corporate level by streamlining decision making and overheads, standardising IT and network management activities, and deliver procurement economies of scale.

## 2.0 NATURE, SCOPE AND PURPOSE

### 2.1 Requirements of the Rules and Guidelines

Clause 6.15.4 of the National Electricity Rules requires that:

- (a) Each DNSP must submit to the AER for its approach a document setting out its proposed CAM; and
- (b) The proposed CAM must give effect to, and be consistent with, the AER's Cost Allocation Guidelines (which the AER must publish under clause 6.15.3).

Under clause 2.1 of the AER's Cost Allocation Guidelines (CAG or the Guidelines), each DNSP is responsible for developing the detailed principles and policies for attributing costs to, or allocating costs between, the categories of distribution services that it provides. These detailed principles and policies must be included in the proposed CAM that Endeavour Energy submits to the AER for approval.

The purpose of this document is to set out the CAM adopted by Endeavour Energy for the purposes of complying with its regulatory obligations.

Endeavour Energy's CAM has been prepared in accordance with the *Cost Allocation Principles* contained in section 6.15.2 of the National Electricity Rules (NER). These principles are described in Box 1.

#### Box 1: Cost Allocation Principles

##### Cost Allocation Principles

- The principles and policies used by Endeavour Energy to allocate costs between the different categories of distribution services are contained in this document, and are described in sufficient detail to enable the AER to replicate the reported outcomes through the application of the principles and policies (clause 6.15.2(1) of the NER);
- The allocation of costs has been determined according to the substance of a transaction or event rather than its legal form (clause 6.15.2(2) of the NER);
- Costs allocated to a particular category of distribution services are either:
  - Costs which are directly attributable to the provision of those services (clause 6.15.2(3)(i) of the NER); or
  - Costs which are not directly attributable to the provision of those services but which are incurred in providing those services and which are allocated using an appropriate allocator (clause 6.15.2(3)(ii) of the NER);
- The reasons for using the method of the chosen allocator, and the numeric quantity (if any) of the chosen allocator, is clearly described in this document (clause 6.15.2(4) of the NER);
- The same costs are not allocated more than once (clause 6.15.2(5) of the NER);
- The principles, policies and approach used to allocate costs are consistent with the *Distribution Ring-Fencing Guidelines* (clause 6.15.2(6) of the NER); and
- Costs which have been allocated to a particular service will not be reallocated to another service during the course of a regulatory control period (clause 6.15.2(7) of the NER).

In accordance with clause 6.15.1 of the NER, Endeavour Energy has a duty to comply with the CAM that has been approved by the AER.

Pursuant to clause 5.1(b) of the CAG, Endeavour Energy 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 services 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 records associated with Endeavour Energy's attribution or allocation of costs can be audited or verified by a third party as required by clause 3.2(a)(7) of the CAG.

## 2.2 Compliance with the Rules and Guidelines

The previous version of Endeavour Energy's CAM was lodged in accordance with Section 6.15.6 of Chapter 6 in the form set out in Appendix 1 of the National Electricity (Economic Regulation of Distribution Service) Amendment Rules 2007 (the "transitional Rules").

The transitional rules are set to expire at the conclusion of the 2009-2014 regulatory control period. As a result, Endeavour Energy must propose a CAM that is consistent with the current NER and the AER's Cost Allocation Guidelines.

Endeavour Energy has reviewed all of the requirements, and has amended the structure and contents of the CAM to reflect these minimum requirements. These amendments to the previous CAM were necessary to effectively promote the Cost Allocation Principles.

However, as discussed below the necessary structural and content amendments required by the AER Cost Allocation Guideline have not amended the underlying cost allocation principles or approach previously adopted. Broadly, these principles are:

- Costs/assets that are directly attributable to a service should be allocated directly to that service;
- Costs/assets that are shared between services should be allocated to those services on a causal basis; and
- Costs/assets that are shared between services but a causal link cannot be applied should be allocated on a reasonable, defensible and non-distortionary basis.

In summary, Endeavour Energy ensures that this proposed CAM will give effect to, and be consistent with, the Guidelines.

## 3.0 COST ALLOCATION METHODOLOGY

### 3.1 NER requirements

Under clause 6.2.1(a) of the NER, the AER may classify a distribution service to be provided by a DNSP as:

- A direct control service; or
- A negotiated distribution service.

Direct control services are further divided into two subclasses (under clause 6.2.2(a)):

- Standard control services; and
- Alternative control services.

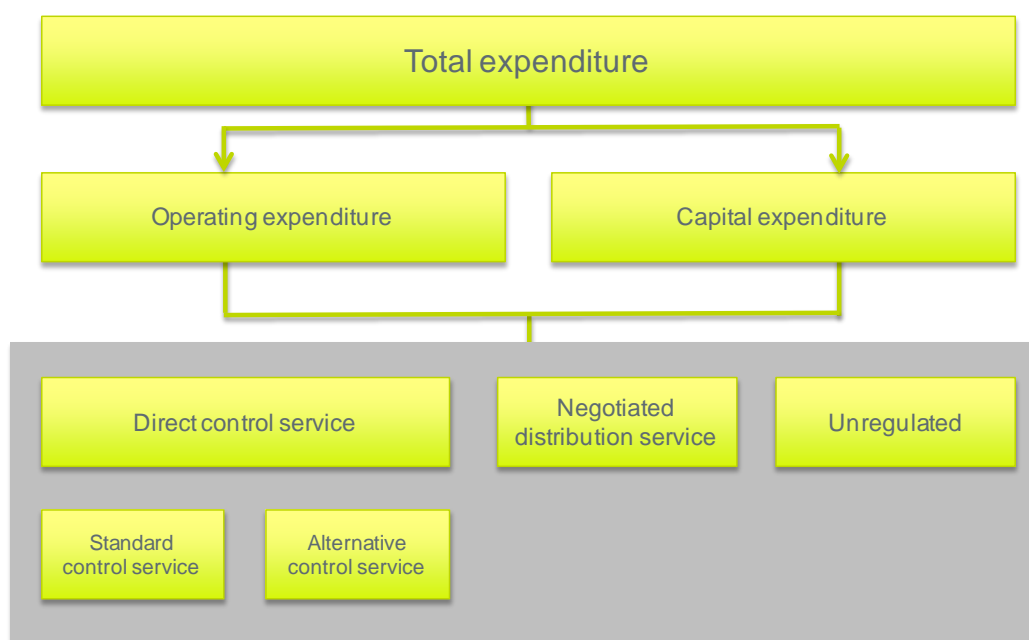
The classification of a service determines the nature of economic regulation, if any, applicable to specific distribution services.

Figure 2 below summarises the cost hierarchy and cost disaggregation process for Endeavour Energy, which is reflected in Endeavour Energy's financial accounting and reporting systems.

Within this process there are several controls applied to ensure compliance with the Cost Allocation Principles, as set out below. However, one control that is required when undertaking disaggregation as set out below is the need to ensure that costs are not allocated more than once, and by implication that all costs are allocated to a service classification.

When the cost disaggregation is completed, mandatory cross checks are applied through the management assurance processes and the independent assurance processes to certify that the value of costs reported at the total expenditure level are equivalent to the sum of costs reported at the lowest service classification level depicted below.

**Figure 2: Disaggregation of expenditure**

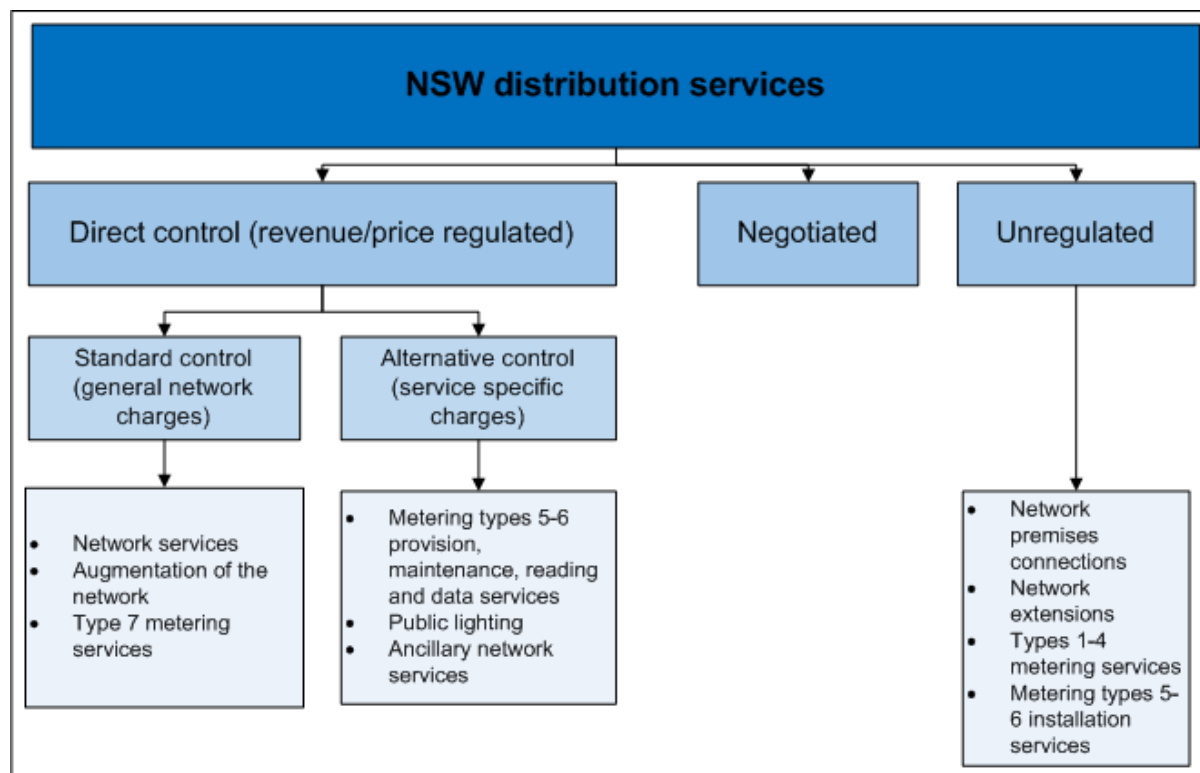




In March 2013, the AER made a determination as to the services that will relate to each of the service classifications used by Endeavour Energy for disaggregating expenditures from 1 July 2014.

The AER Framework and Approach Stage 1 decision released in March 2013 specifies in some detail the services, the relevant customers and the determined service classification. The complete listing of services is set out in Appendix D of the AER's decision. However, given the detail contained in the AER Framework and Approach Stage 1 decision, the following summary in Figure 3<sup>1</sup> from the AER's paper is provided for ease of discussion for the purposes of the CAM.

**Figure 3: AER's proposed classification of NSW distribution services**



Broadly speaking standard control services are provided or can be provided to all connected network customers, alternative control services are provided either at the request of any network customer or apply to specific classes of network customers, such as public lighting services for Councils.

<sup>1</sup> AER, Stage 1 Framework and Approach – NSW electricity distribution network service providers, pg16.

## 3.2 Overview of systems and costing principles

Endeavour Energy's costs are recorded based on the following hierarchy of costs.

**Table 1: Disaggregation of expenditure**

Cost element	Description
<b>Organisation unit</b>	Defined by organisational structure / responsibility centre  E.g. Network Operations, Information Communications & Technology, Finance & Compliance.
<b>Activity</b>	A major grouping of work performed which feeds up to the information requirements of the organisation. A capital project is a type of Activity.  E.g. Distribution Substation Maintenance, Street Lighting, Corporate Services for operating expenditure and Network capex or other capex for capital expenditure.
<b>Sub-activity</b>	An additional breakdown of the Activity.  E.g. Fault and Emergency Repairs, Condition Based Maintenance, Training for operating expenditure and Industrial and commercial, asset relocations and major projects for capital expenditure.
<b>Expense element</b>	Categorisation of expenses  E.g. Salaries and wages, costs of consultants, travel and accommodation costs, training seminars, insurance costs.

### 3.2.1 Ellipse

Ellipse Financial Management is Endeavour Energy's Enterprise Reporting Platform (ERP) which also has the financial management reporting modules. It records information on financial transactions (e.g. account code, work order or project number) and allows information on costs to be extracted for auditing and analytical purposes.

Expense elements are initially recorded by transaction and are then aggregated and categorised for regulatory, financial and summary purposes.

The nature of the specific costs incurred by Endeavour Energy are categorised according to various cost elements such as:

- Labour (normal pay, overtime and labour on-cost such as superannuation, workers compensation, sick leave and annual leave);
- Materials;
- Contracted services and consultancy; and
- Other (this includes items such as vehicle expenses, IT expenses, rent, insurance and taxes).

Expense elements are common to both operating and capital expenditure. An expense element can incur multiple and different types of transactions that make up the total expenditure for a particular expense element category.

### 3.2.2 TM1

TM1 is a Microsoft Excel based application which summarises data extracted from Ellipse for analytical and reporting purposes. TM1 enables Endeavour Energy to apply calculations in accordance with the CAM to attribute costs to, and allocate costs between, the relevant service categories for operating expenditure. TM1 is the application that gives practical effect to the CAM.

### 3.2.3 Costing procedures

Endeavour Energy's cost recording and cost disaggregation process is summarised as follows:

- Costs are captured by transaction in Ellipse and aggregated at the "expense element" level. The distinction between operating expenditure and capital expenditure is based on the Australian Accounting Standards, NSW Treasury policies and good industry practice.
- Operating expense elements are extracted using TM1 and aggregated into opex activities (and sub-activities as necessary) and are flagged in either a network organisation unit or a shared organisation unit. Opex activities are then allocated to standard control, alternative control or excluded services.

**Table 2: Organisation units**

Category	Units
<b>Network organisation units</b>	Network Operations Network Development Chief Engineer
<b>Shared organisation units</b>	Chief Operating Officer Information, Communications & Technology Health, Safety & Environment People & Services Finance & Compliance

- Capital expenditure elements are based on capex transactions in Ellipse, which are linked to work orders, which are in turn assigned to capital projects. Capex items are categorised as either system capex or non-system capex. There are minor differences between how system and non-system capex is treated.
  - System capex is presented at the project / program level and is either assigned as standard control, alternative control or excluded services.
  - Non-system capex is presented at the sub-activity level and is and is either assigned as standard control, alternative control or excluded services.

Endeavour Energy's cost allocation methodology is based on the following high level principles and definitions:

1. Principles in Section 2.2 of the CAG:

- The same costs are not allocated more than once (clause 6.15.2(5) of the NER); and
- Costs that have been attributed or allocated to a category of distribution service are not reattributed or reallocated to another distribution service within a regulatory control period.

2. Other well-regarded principles consistent with good cost allocation practice:

- Items which can be directly attributed to a specific service (distribution or otherwise) are attributed accordingly;
- Items that can be directly attributed to network activities, but not to an individual service are allocated using a causal allocator;
- Items that cannot be directly attributed to network activities are allocated using an appropriate and defensible allocation method; and

- Where costs are allocated, the numeric figures, percentages, etc. relating to the drivers used to undertake those allocations are updated annually.

Endeavour confirms that the principles of the CAG are embedded in Endeavour's cost allocation approach.

The remainder of this chapter outlines the detailed principles and policies that Endeavour Energy applies in performing the above cost attributions and allocations with respect to opex and capex.

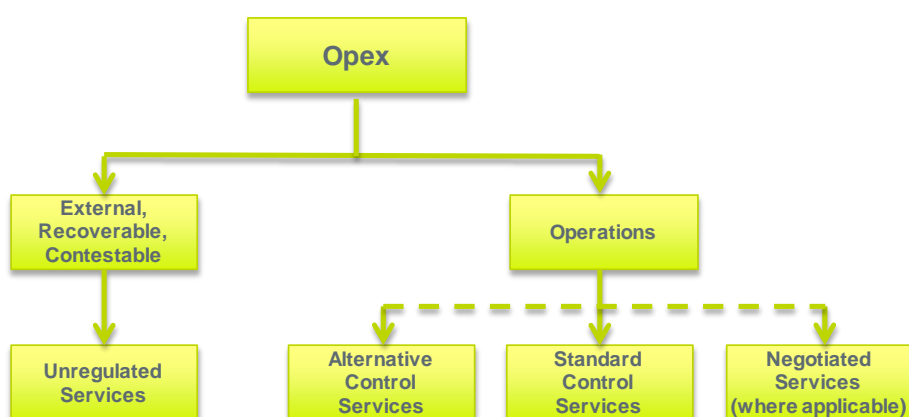
### 3.3 Operating and maintenance expenses

#### 3.3.1 Overview

Operating or maintenance expenditure is expenditure incurred to ensure that a fixed asset continues to provide its predetermined service capacity and quality and achieves its useful life.

The following figure shows the disaggregation of Endeavour Energy's opex into different service categories.

**Figure 4: Disaggregation of operating expenditure**



Endeavour identifies and records opex at the expense element level in its financial management reporting system Ellipse. Opex is extracted from TM1 and presented by activity (and sub-activity as necessary).

Each activity is flagged as either being a network activity (i.e. belonging to a network organisation unit and therefore directly attributable to a service) or a shared activity (i.e. belonging to a shared organisation unit). The attribution of each activity to the network or shared classification is reviewed periodically, with additional reviews occurring where there is a change in operational structure or activities within the organisation.

The processes of allocating operating costs to various categories involve the following 5 stages:

#### Stage 1 – Direct Network Costs

The operating costs associated with activities within the network functional areas are directly attributed to the services to which they support, based on direct relationships between the activity or sub-activity category and the service category (i.e. Standard Control Service, Alternative Control Service or Unregulated).

#### Stage 2 – Specific Costs

Some ongoing operating expenses ("specific overheads") associated with specific organisation units within the network functional areas are able to be directly attributed to the services to which they support, based on direct relationships between the activity or sub-activity category and the service

category (i.e. Standard Control Service, Alternative Control Service or Unregulated). These are distinct from network overheads, which cannot be directly allocated. Specific costs are allocated on a pro rata basis, based on the proportions of the direct allocation of network costs to each service category (outlined in Stage 1).

### Stage 3 – Network Overheads

The remaining network operating costs that cannot be allocated directly are network overheads and are allocated to service categories based on a non-causal allocator. Network overheads are allocated on a pro rata basis, based on the proportions of the direct allocation of network costs to each service category (outlined in Stage 1). The specific costs in stage 2 are not eligible for a Network Overhead allocation.

### Stage 4 – Corporate Overheads

Corporate overheads and shared business unit costs are allocated to the network business by a combination of causal factors relative to the nature of the expense type e.g. call volumes to call centre etc. Where a causal basis cannot be determined overheads are allocated on the basis of the weighted value of costs attributed to distribution and non-distribution services.

The network business's share of corporate overheads are then allocated to the relevant service categories using a similar approach as with network overheads, i.e. allocated on a pro rata basis, based on the proportions of the direct or specific allocation of network costs (stages 1 or 2) to each service category.

### Stage 5

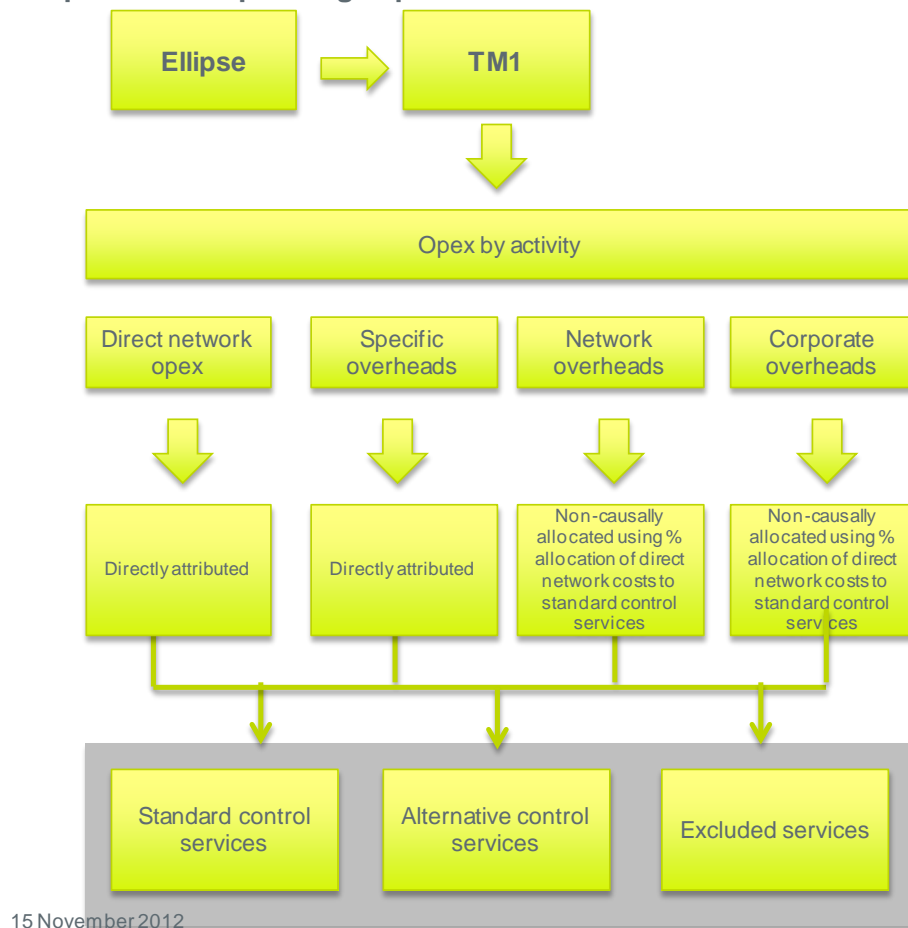
The network operating costs attributed to standard control services in accordance with steps 1 and 2 above are then recorded against the following regulatory categories, which correspond to standard control services, alternative control services and excluded services, as regarded by the AER.

**Table 3: Categorisation of opex**

Service sub-category	Service category 2009-14 regulatory period	Service category 2009-14 regulatory period
Standard control service	Standard control service	Standard control service
Ancillary (miscellaneous & monopoly fees) network services	Standard control service	Alternative control service
Metering types 5 & 6	Standard control service	Alternative control service
Metering type 7	Standard control service	Standard control service
Public lighting	Alternative control service	Alternative control service
Contestable metering types 1-4	Excluded	Excluded
Customer funded services	Excluded	Excluded
Customer specific services	Excluded	Excluded
Nightwatch	Excluded	Excluded
Retail	Excluded	Excluded

This process of allocating opex to the service category level is shown in the figure below.

**Figure 5: High-level process of operating expenditure allocation**



Endeavour Energy identifies and disaggregates directly attributable operating expenditure at the expense element level, based on the characteristics unique to each element. Endeavour Energy undertakes detailed analysis to attribute activities and sub-activities to each operating expense line item. The combination of these detailed assessments in conjunction with the relevant org unit are then utilised to determine if it represents a directly attributable cost for the purposes of the CAM. The expense element and sub-activity analysis to support the direct attribution is reviewed periodically, with additional reviews occurring where there is an environmental or regulatory change that may require a review of the previous analysis.

Endeavour Energy does not aggregate its directly attributable expense elements into broader categories, and for this reason, Endeavour Energy has not included the list of expense element classifications in this CAM. This information can be made available and provided to the AER upon request.

### 3.3.2 Depreciation

Depreciation relating to system assets is directly allocated to Direct Control Services. It is further causally allocated to standard and alternative control services.

Depreciation expense relating to non-system assets is causally allocated to services based on usage, consistent with Property, Plant and Equipment allocations.

### 3.3.3 Borrowing Costs

Borrowing costs are directly attributable to standard control services due to its relationship with investments and the underlying network assets that are funded by interest bearing debt facilities.

### 3.3.4 Income Tax Expense (notional allocation)

There are several Statement of Financial Performance and Statement of Financial Position items that are managed at a corporate level and are not attributed to individual services for any commercial needs. These include income tax, dividends, and cash.

Consequently, allocation of these items is undertaken for the purpose of regulatory reporting and is therefore allocated on a notional basis.

Income tax expense is allocated between services based on the proportion of operating profit before tax outcomes for each service derived from the attributions and allocations set out above.

### 3.3.5 Dividends (notional allocation)

Dividends are allocated between services based on the proportion of operating profit earned by each service derived from the attributions and allocations set out above.

### 3.3.6 Summary

The following table summarises the relevant cost drivers used to allocate operating expenses:

**Table 4: Summary of operating expenditure cost drivers**

Cost Type	Endeavour Energy Cost Driver
<b>Operating and Maintenance</b>	
Direct network costs	Directly attributed
Specific network costs	Directly attributed <sup>2</sup>
Network overheads	Are non-causally allocated using the percentage allocation of direct network costs to standard control services, alternative control services and unregulated services.  This allocation method has been adopted as there is a reasonable link between the directly costed functions of the network activities and the amount and value of overhead and support functions in support of those network activities.
Corporate overheads	Are non-causally allocated using the percentage allocation of direct network and specific overhead costs to standard control services, alternative control services and unregulated services.  This allocation method has been adopted as there is a reasonable link between the directly costed functions of the network activities and the amount and value of overhead and support functions in support of those network activities.
<b>Non Operating and Maintenance</b>	
Depreciation (system assets)	Directly attributed
Depreciation (non-system assets)	Causally allocated based on the relative proportion of non-system assets allocated to each specific class (the percentage allocation is recalculated annually)
Interest	Directly attributed
Tax (notional allocation)	Directly attributed

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<sup>2</sup> Directly attributed to the services to which they support, based on the direct relationships between the activity or sub-activity category and the service category



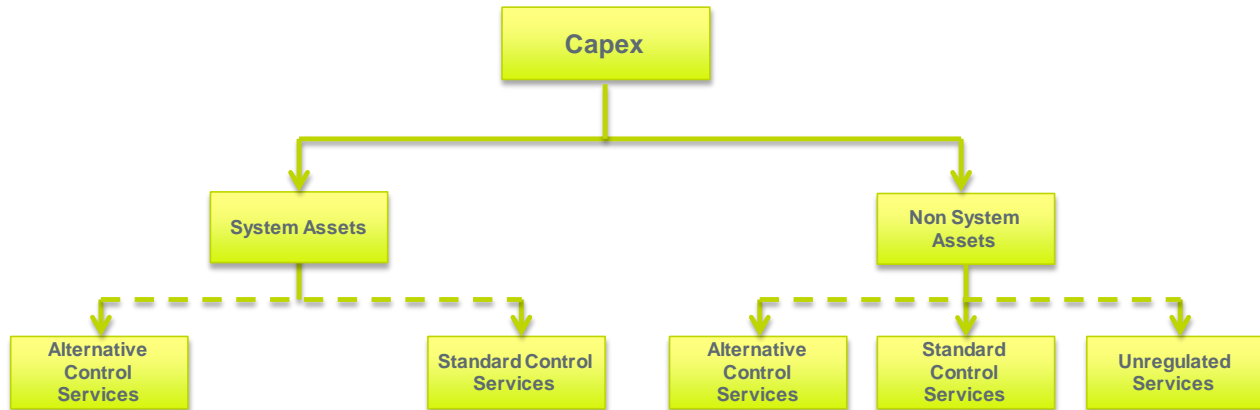
## 3.4 Capital expenditure

### 3.4.1 Overview

Capital expenditure is expenditure incurred to acquire, replace or enhance the economic benefits embodied in a fixed asset. The economic benefits may be enhanced by extending the fixed asset's life or by improving its capacity or quality.

The disaggregation of Endeavour Energy's capital expenditure into different service categories involves the application of the cost allocation principles at different levels of disaggregation. This is shown in Figure 5 below.

**Figure 6: Disaggregation of capital expenditure**



The following procedures are applied to identify and directly attribute capital expenditure:

### 3.4.2 System capex

- System capex is recorded in Ellipse by transactions and are consolidated at the project level (transactions are linked to a work order, which are assigned to a project)
- Capex at the project level is then allocated directly to Standard Control Services or Alternative Control Services based on the AER RIN categories
- There are pre-determined links between projects and AER categories, with all system capex allocated to standard control services, with the exception of public lighting, which is classified as an Alternative Control Service
- All capex projects are allocated directly except Network Switching and Capitalised Overheads – both are allocated on a pro rata basis, where costs are allocated on a pro rata basis, based on the direct allocation of System Capex.

### 3.4.3 Non-system capex

- Non-system capex is recorded in Ellipse by transactions and are consolidated at the sub-activity level (transactions are linked to a work order, which are assigned to a sub-activity). There are no overheads allocated or added to non-system capex (unlike System capex)
- The “unregulated component” of each sub-activity within non-system capex is estimated based on causal allocation drivers assigned to each sub-activity of non-system capex (refer to Appendix for the allocation drivers). The allocation driver will enable the allocation of annual expense in dollar terms between regulated and unregulated services.
- The unregulated component is subtracted from non-system capex to estimate regulated non-system capex, which is then further separated between Standard Control Service and Alternative Control Services

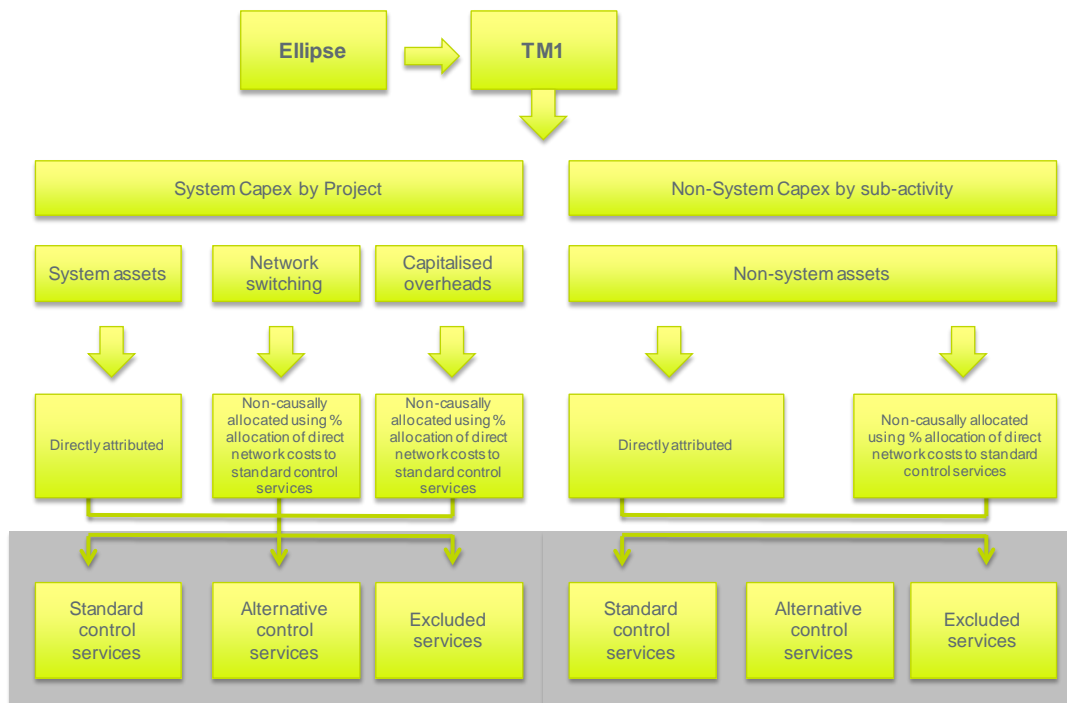


- There are some instances where the allocation methodology for some non-system capex categories is one-for-one e.g. Type 1-4 Meters are 100% allocated to Unregulated Services.

All corporate overhead capex is attributed based on the allocation of direct network costs to standard control services.

This process of allocating opex to the service category level is shown in the figure below.

**Figure 7: High-level process of capital expenditure allocation**



### 3.4.4 Summary

The following table summarises the relevant cost drivers used to allocate the capital expenditure:

**Table 5: Summary of capital expenditure cost drivers**

Cost Type	Endeavour Energy Cost Driver
<b>System capital expenditure</b>	
System assets	Directly attributed
Network switching	Are non-causally allocated using the percentage allocation of system capex to standard control services, alternative control services and unregulated services.  This allocation method has been adopted as there is a reasonable link between the value of projects and the amount of network switching activity that the suite of projects would require.
Capitalised overheads	Are non-causally allocated using the value of system capex directly attributed to standard control services, alternative control services and unregulated services  This allocation method has been adopted as there is a reasonable link between the value of projects and the amount of capitalised overheads that the suite of projects would require.
<b>Non-system capital expenditure</b>	
Non-system assets	Directly attributed

## 4.0 IMPLEMENTATION AND COMPLIANCE

### 4.1 Commitment to compliance with the Cost Allocation Method

Endeavour Energy is committed to ensuring compliance with all of its regulatory obligations, including compliance with this Cost Allocation Method.

- Endeavour Energy is committed to ensuring value for money services to its customers. This commitment not only applies to undertaking necessary activities at efficient cost, but extends to ensuring that the costs of its activities are appropriately charged to the correct services and customers in accordance with pricing efficiency and cost reflectivity principles.
- Endeavour Energy confirms that the detailed principles, policies and approach of this CAM are consistent with the ring-fencing guidelines as required by clause 2.2.6 of the CAG and clause 6.17 of the NER.
- All related party transactions undertaken by Endeavour Energy are contained in its audited financial statements and audited Regulatory Accounts. Costs and revenues for related party transactions are directly attributed or allocated in accordance with the CAM, consistent with the methodology applied for transactions with external parties.
- Endeavour Energy monitors compliance with the CAM by requiring that all staff and management involved in the preparation and review of information to be provided to the AER verify that the information and its preparation complies with the AER approved CAM.

Endeavour Energy recognises that the Cost Allocation Method, the AER's Cost Allocation Guidelines, the Cost Allocation Principles contained in the National Electricity Rules, and Endeavour Energy's compliance with all of these is a critical element for the realisation of Endeavour Energy's commitment to its customers.

### 4.2 Organisational Responsibilities for Compliance

Organisational responsibilities for compliance with the CAM are aligned to the internal responsibilities and authorities governing information development, escalation, review and provision to the AER.

Figure 8 below outlines the key areas of reporting and the relevant review and oversight applied to each area of financial information.

**Figure 8: Key responsibilities within Endeavour Energy**

Area of reporting	Information Preparation	Management Review	Executive Endorsement	Approval
Revenue	Financial Policy & Reporting Manager	Financial Controller	General Manager Finance & Compliance & Chief Operating Officer	Chief Executive Officer
Operating Expenditure	Financial Policy & Reporting Manager	Manager Commercial Decision & Support / Financial Controller		
Capital Expenditure	Commercial Manager Network / Financial Policy & Reporting Manager	Manager Commercial & Decision Support / Financial Controller		
Depreciation	Financial Policy & Reporting Manager	Financial Controller		
Interest				
Income Tax				
Financial Statements				

The Chief Operating Officer has overall responsibility for the governance and sign-off of the CAM. This includes ensuring Endeavour Energy complies with the CAM and the CAG.

Endeavour Energy will monitor compliance with the CAM and the CAG through the following measures:

- The annual financial statements, Ellipse transactions and TM1 processes are reviewed by external audit. This audit is overseen by the General Manager Finance & Compliance.
- The Financial Policy & Reporting Manager and Commercial Manager Network are responsible for preparing information in accordance with the approved CAM and the CAG. Compliance is endorsed by executive management and reviewed by independent auditors.
- Furthermore, the Chief Executive Officer will sign a Statutory Declaration attesting that the reported information, to the best of his/her knowledge, is true and accurate in all material respects (where required).

Internal procedures identify key responsibilities for undertaking the analytical work, preparation of work papers and completing the relevant elements of reporting in accordance with the CAM. Further, the procedures identify the relevant manager with the responsibility for reviewing each category of information, associated work papers and ensuring compliance with the CAM. Following these quality assurance reviews, the General Manager Finance & Compliance holds ultimate responsibility for reviewing and testing the operating cost allocations.

### 4.3 Records Management

Endeavour Energy's document and records management processes and procedures have been developed in accordance with its statutory obligations to maintain records that will allow it to produce and/or reproduce documentation and reporting on the same manner as required.

In addition, Endeavour Energy maintains historic data in a protected electronic format within key corporate information and finance systems including billing and payments systems e.g. Banner, Ellipse and data warehouse applications e.g. TM1.

The data warehouse applications are particularly useful for maintaining information records for regulatory reporting purposes. Such applications allow for the preservation, maintenance and re-calculation of key regulatory reporting data such as the annual allocation percentages, the application of the direct attribution of costs to the various services based on the links between the activity/sub activity to those services etc.

Endeavour Energy's data and records management approach will ensure that Endeavour Energy is able to reproduce the underlying workings and calculations of allocations and attributions made to the various services in accordance with this CAM at any time so requested by the AER.

Endeavour Energy confirms that it maintains financial source documentation and records consistent with the accounting standards and statutory requirements to adequately demonstrate compliance with the CAM and the CAG.

As required under clause 3.2(a)(7) of the CAG, Endeavour Energy will maintain records of cost attribution and allocation as follows:

- As described in section 3, cost collection and reporting is undertaken electronically using Endeavour's integrated business management system (Ellipse). Cost attribution and allocation in accordance with the CAM is based on information sourced from Ellipse and performed in TM1.
- The CAM will be applied to Endeavour Energy's audited annual financial statements to prepare the annual Regulatory Information Notices and assign costs to their relevant services. As a result, the audited annual financial statements will form the basis of the annual RINs.
- Endeavour Energy review the allocations each year and obtain sign off (via email confirmation) from the Commercial Managers that the allocations are still valid. This data is all stored on Endeavour Energy's corporate network and the allocations are also fed into TM1 which is Endeavour Energy's corporate financial reporting tool.
- These systems are all backed up daily as part of Endeavour Energy's records management process.
- Endeavour Energy will prepare and maintain appropriate documentation and information that supports the preparation of the RINs for submission to the AER. These records are provided to external auditors for the purpose of providing an opinion that the Regulatory Accounts are presented fairly in accordance with the approved CAM and the AER's Regulatory Information Notice ('RIN').
- As part of the annual RIN process, managers at various levels within the organisation are required to sign off on a management representation letter stating, among other things, that the allocation of costs between the business segments is reasonable.

## APPENDIX: COST ALLOCATION EXAMPLES

Table 6 below contains an example of the proportion of costs attributed to each service category in 2011-12. The weightings are based on the 2011-2012 financial year actuals and are used as the basis for allocating network and corporate overheads. These allocation percentages are updated annually based on forecast budget data.

**Table 6: Weighted average cost allocator calculation 2011-12**

Allocator	Standard control services		Alternative control services		Unregulated services	
	\$m	%	\$m	%	\$m	%
<b>Weighted average cost</b>	\$187.0	82.9%	\$15.3	6.8%	\$23.4	10.3%

The tables below show some example allocations of opex and capex items.

**Table 7: Example allocation of opex 2011-12**

Activity	Sub-activity	Cost 2011-12 (\$m)	Cost type	Standard control services	Alternative control services	Unregulated services
<b>Distribution substation maintenance</b>	RC – Condition Based Maintenance	1.47	Direct allocation	100%	0%	0%
<b>Street Lighting</b>	RI – Inspection and Investigation	1.70	Direct allocation	0%	100%	0%
<b>Corporate Services</b>	41 – Finance and Administration	2.47	Corporate overhead	82.9%	6.8%	10.3%
<b>Infrastructure Capital Contributed</b>	10 – Construction – Industrial and Commercial	2.29	Direct allocation	0%	0%	100%

**Table 8: Example allocation of capex 2011-12**

Capex / Project	Sub-activity	Cost 2011-12 (\$m)	Cost type	Standard control services	Alternative control services	Unregulated services
<b>Distribution Works Program</b>	18 - Construction - Distribution Works	44.35	Direct allocation	100%	0%	0%
<b>Street Lighting Capital</b>	12 - Construction - Street Lighting	5.55	Direct allocation	0%	100%	0%

<b>Non-System Capex</b>	WE - WIP - IT&T Software	15.15	Causal allocator <sup>3</sup>	70%	3%	27%
<b>Network Switching</b>	73 - Planned Switching	5.34	Overhead	82.9%	6.8%	10.3%

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<sup>3</sup> IT&T Software capex is allocated on the basis of the number of PCs used by business units within each service category (i.e. Standard Control, Alternative Control, Unregulated services). For example, in 2011-12, around 70% of Endeavour Energy's PCs were used by business units related to the provision of Standard Control Services.

## APPENDIX: OPEX AND CAPEX

The following tables contain broad categories of opex and capex categories, the service categories to which expenditure is attributed and the basis for the attribution.

**Table 9: Operating expenditure**

Category	Description	Service(s) allocated to	Basis of allocation	Causal / Non-causal	Reason for allocator
Direct Network Opex (including specific overheads)	Operating costs relating to network activities excluding overheads. These costs are able to be directly attributed to a service based on the sub-activity classification.	Standard Control Alternative Control Unregulated	Directly allocated based on the purpose and use of the asset.	N/A	N/A
Network Overheads	Overheads incurred relating to distribution network activities.	Standard Control Alternative Control Unregulated	No causal allocator  Costs are allocated on a pro rata basis, based on the direct allocation of Direct Network Opex (excluding specific overheads)	Non-causal	Reflects the relationship between overheads and overall business activity and performance.
Corporate Overheads	Overheads incurred as part of corporate activities (e.g. IT, Human Resources, Finance & Compliance).	Standard Control Alternative Control Unregulated	No causal allocator  Costs are allocated on a pro rata basis, based on the direct allocation of Direct Network Opex (including specific overheads)	Non-causal	Reflects the relationship between overheads and overall business activity and performance.
Capitalised Overheads	Overheads incurred as by the business which are capitalised (transferred from opex to system capex)	Standard Control Alternative Control	No causal allocator  Costs are allocated on a pro rata basis, based on the direct allocation of	Non-causal	Reflects the relationship between overheads and overall business activity and performance.

Category	Description	Service(s) allocated to	Basis of allocation	Causal / Non- causal	Reason for allocator
			System Capex		



**Table 10: Capital expenditure**

Category	Description	Service(s) allocated to	Basis of allocation	Causal / Non-causal	Reason for allocator
<i>System capex</i>					
System Assets	Capital expenditure associated with planning, purchasing, replacing and constructing Endeavour's electricity distribution network (excluding public lighting).	Standard Control	Directly allocated by project, which reflects the purpose and use of the asset.	N/A	N/A
Network Switching	Capital expenditure associated with the network switching activities under as part of the management of system operations.	Standard Control Alternative Control	No causal allocator  Costs are allocated on a pro rata basis, based on the direct allocation of System Capex	Non-causal	Reflects the relationship between network switching costs and overall business activity and performance.
Capitalised Overheads	Overheads incurred as by the business which are capitalised	Standard Control Alternative Control	No causal allocator  Costs are allocated on a pro rata basis, based on the direct allocation of System Capex	Non-causal	Reflects the relationship between overheads and overall business activity and performance.
Street Lighting	Capital expenditure associated with the provision of public lighting services.	Alternative Control	Directly allocated by project, which reflects the purpose and use of the asset.	N/A	N/A
<i>Non-system capex</i>					
Non-Infrastructure Land	Capital expenditure associated with non-system land.	Standard Control Alternative Control Unregulated	Causal allocator  Costs are allocated on the basis of floor space	Causal	Reflects the strong causality between the size and value of the properties in property portfolio and capital expenditure on non-system land and buildings.
Non-Infrastructure Buildings	Capital expenditure associated with non-system buildings.	Standard Control Alternative Control Unregulated	Causal allocator  Costs are allocated on the basis of floor space	Causal	Reflects the strong causality between the size and value of the properties in property portfolio and capital expenditure on non-system land and buildings.

Category	Description	Service(s) allocated to	Basis of allocation	Causal / Non-causal	Reason for allocator
IT&T Software	Capital expenditure associated with IT software and systems.	Standard Control Alternative Control Unregulated	Causal allocator  Costs are allocated on the basis of number of PCs and IT programs	Causal	Reflects the strong causality between the use of IT software and the need and use of IT infrastructure by Endeavour personnel.
IT&T Infrastructure	Capital expenditure associated with IT infrastructure and hardware.	Standard Control Alternative Control Unregulated	Causal allocator  Costs are allocated on the basis of number of PCs	Causal	Reflects the strong causality between the use of IT hardware and the need and use of IT infrastructure by Endeavour personnel.
Motor Vehicles	Capital expenditure associated with the purchase and fit-out of motor vehicle fleet.	Standard Control Alternative Control Unregulated	Causal allocator  Costs are allocated on the basis of number of vehicle registrations	Causal	Reflects the strong causality between fleet costs which have been directly attributed to a category of service and the need and use of vehicles.
Other PP&E	Capital expenditure associated with other fixed assets (PP&E), includes assets such as furniture.	Standard Control Alternative Control Unregulated	Causal allocator  Costs are allocated using a combination of property drivers including floor space and number of telephone handsets	Causal	Reflects the strong causality between the size and value of the properties in property portfolio and capital expenditure on furniture and fittings etc.