Ergon Energy and Energex

Cost Allocation Method Version 1.a

18 October 2018

Part of the Energy Queensland Group

Version History and Date of Issue

Section 3.2(a)(2) of the Australian Energy Regulator's Cost Allocation Guidelines[1] requires that this Cost Allocation Method include the Distribution Network Service Provider's commitment to history and date of issue for the document. This is detailed in the table below. Minor updates will be nominated as sub versions of the approved document, e.g. minor style or wording changes that do not alter the meaning will be designated as version 1.b. Substantive changes that amend content or meaning will be given a new version number, e.g. changes to the attribution of costs or the allocation of costs will be designated as version 2.a. Modifications of this document will be in accordance with the National Electricity Rules and the Cost Allocation Guidelines requirements.

Version	Date of Issue	Date of Commencement	Description
1.a		1 July 2020	Initial CAM approved by AER

General Manager
Regulation and Pricing

Energy Queensland
PO Box 1090
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[1] Electricity distribution network service providers, Cost allocation guidelines, June 2008

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1. BACKGROUND

As Distribution Network Service Providers (DNSP), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) are required under clause 6.15.4 of the National Electricity Rules (NER) to submit a Cost Allocation Method (CAM) to the Australian Energy Regulator (AER) for approval. The CAM must give effect to and be consistent with the AER's Cost Allocation Guidelines[2] (CAG).

Clause 6.15.4(f) of the NER provides that a DNSP may amend its CAM subject to the AER's approval. In order to maintain the relevance of the CAM, the following changes have been made to the Energex and Ergon Energy cost allocation method that have applied during the 2015-20 period:

- Update the organisational and corporate structure to reflect the integration of the two distribution network service providers under a common parent company, Energy Queensland Limited (EQL), and operating model.
- Ensure consistency and demonstrate compliance with the AER's Ring-Fencing Guidelines (RFG).
- Align the allocation of shared costs between the two EQL group distribution networks to enable greater administrative efficiency.
- Make minor changes to update or clarify issues to improve interpretation.

2. CAM FORMAT AND CONTENTS

Clause 3.2 of the CAG sets out the required format and contents of a DNSP's CAM. This document complies with clause 3.2 of the CAG as follows:

- **The version control page** sets out information regarding Ergon Energy and Energex's commitment to recording the version number, history and date of issue for the CAM document (clause 3.2(a)(1) and (2)).
- **Section 2** outlines the CAM format and contents summary.
- **Section 3** describes the nature, scope and purpose of Ergon Energy and Energex's CAM (clause 3.2(a)(3)).

[2] AER Electricity Distribution Network Service Providers, Cost Allocation Guidelines, June 2008.

- Section 4 provides the operative date for the CAM (clause 3.2(a)(9)).
- Section 5 outlines the accountability for implementing the CAM (clause 3.2(a)(3)(A)) and the responsibilities for updating, maintaining and applying the CAM and for internally monitoring or reporting on its application (clause 3.2(a)(3)(B)) across the Ergon Energy and Energex Distribution Networks.
- Section 6 presents Ergon Energy and Energex's corporate structure, identifying the relationships between the distribution networks and the broader EQL group (clause 3.2(a)(4)).
- Section 7 presents the operating structure of the Ergon Energy and Energex networks under the common EQL group management team (clause 3.2(a)(4)).
- Section 8 describes the categories of distribution services that are provided by the Ergon Energy and Energex networks and the parties that these services are provided to (clause 3.2(a)(5)).
- Section 9 summarises the cost allocation principles and policies that are applied in accordance with the CAG and RFG and overviews the financial systems that are used to implement and report against the CAM (clause 3.2(a)(6)).
- Section 10 outlines the measures that are in place to ensure consistency of application of this document and the maintenance of records over time.
- Section 11 identifies Ergon Energy and Energex's ongoing commitment to monitoring and compliance with this document (clause 3.2(a)(8)).
- Appendix A provides a compliance checklist against the requirements of the AER CAG.

3. NATURE, SCOPE AND PURPOSE OF CAM

3.1 Nature

This CAM document has been prepared in accordance with the requirements of Chapter 6 Part F of the NER and the CAG. Ergon Energy and Energex have submitted this CAM to the AER for approval to take effect from 1 July 2020, superseding the separate CAM documents for Ergon Energy [version 5.0] and Energex [version 3.a].

3.2 Purpose

This document sets out the principles and policies for attributing direct costs and allocating indirect costs between different categories of distribution services, that is, between direct control services (standard control services and alternative control services) and unregulated distribution services.

The method and principles established in this document are also applied to attribute and allocate costs to non-distribution services, ensuring that only those costs associated with Ergon Energy and Energex's distribution services are then attributed to, or allocated between, the categories of distribution services.

3.3 Scope

This CAM gives effect to, and is consistent with, the cost allocation principles and the CAG. Specifically:

- The CAM attributes costs directly to, or allocates costs between, categories of distribution services on the substance of the underlying transaction or event, rather than the legal form, as required by section 2.2.2 of the CAG.
- Only costs that are directly attributable to the provision of a particular category of distribution services are directly attributed to those services, as required by section 2.2.3 of the CAG.
- The CAM allocates shared costs between categories of distribution services using appropriate causal allocators, as required by section 2.2.4 of the CAG.
- The CAM does not allocate the same cost more than once, as required by section 2.2.5 of the CAG.
- The detailed principles, policies and approach used to attribute costs directly to, or allocate costs between, categories of distribution services are consistent with the applicable ring-fencing guidelines under clause 6.17 of the NER, as required by section 2.2.6 of the CAG.
- It will not reattribute or reallocate costs from a distribution service to another service during the course of a regulatory control period, as required by section 2.2.7 of the CAG.

Ergon Energy and Energex will apply this CAM to prepare:

- 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 any regulatory information instruments.

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- Actual or estimated capital expenditure for the purposes of adjusting the value of its regulatory asset base under Schedule 6.2.1(f) of the NER.

Ergon Energy and Energex commit to this CAM and its principles and policies and will apply the CAM consistently over time. Any modifications required to this document to ensure its ongoing relevance to the business will be undertaken in accordance with the NER and CAG.

4. DATE OF COMMENCEMENT

This CAM is effective from the start of the regulatory control period commencing on 1 July 2020 and will remain in force until such time as a new or amended CAM is approved by the AER in accordance with the NER and the CAG. Upon its commencement, this CAM will supersede all earlier versions of a CAM for either Ergon Energy or Energex.

5. ACCOUNTABILITY FOR THE CAM

Accountability for implementing the CAM resides with the Chief Financial Officer (CFO) through the finance and regulatory functions within EQL.

The day-to-day responsibility for the CAM is shared between the:

- Group Manager Financial Control, who is responsible for the application of the CAM in the production of regulatory financial reporting, the monitoring and reporting on the CAM's application and the integration of the CAM into the processes and financial systems used; and
- General Manager Regulation and Pricing who is responsible for monitoring compliance of the CAM and with the NER, the CAG and the RFG.

Ergon Energy and Energex will ensure that accounting records incorporate the application of the CAM and regulatory financial reporting will be based upon these records.

Ergon Energy and Energex will internally review and monitor application of the CAM for accuracy and completeness. This includes formally monitoring and reporting on the CAM's application through its internal and external audit programs.

6. CORPORATE STRUCTURE

Section 3.2(a)(4) of the CAG requires the CAM to include a description of the DNSP's corporate structure.

Ergon Energy and Energex are wholly owned subsidiaries of EQL. EQL, which commenced operations on 30 June 2016, is a Queensland Government Owned Corporation (GOC) that is the holding company for both Ergon Energy and Energex.

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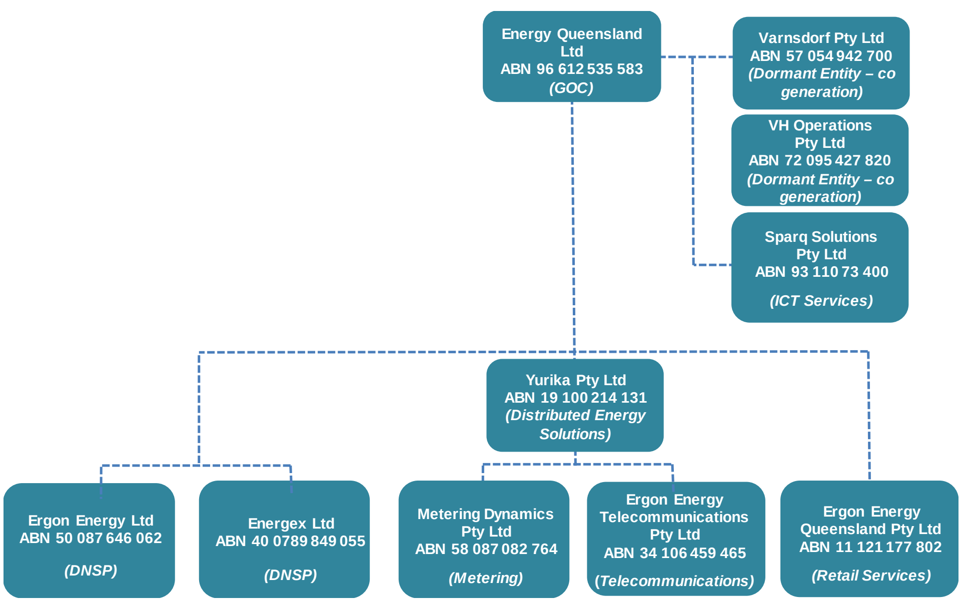
Ergon Energy is the DNSP that provides distribution services to over 700,000 customers in regional Queensland. Ergon Energy services an area of around 97 per cent of Queensland and has approximately 150,000 kilometres of power lines and one million power poles. Around 70 per cent of the network's power lines are considered rural, with a very low customer density and largely radial profile.

Energex is the DNSP that builds, owns, operates and maintains the electricity distribution network in South East Queensland. Energex provides distribution services to 1.4 million domestic and business connections, delivering electricity to a population base of around 3.4 million people across the region.

Ergon Energy and Energex's key focus is distributing safe, reliable and affordable electricity in a commercially balanced way that provides value for its customers, manages risk and builds a sustainable future.

The corporate structure for Ergon Energy and Energex is shown in Figure 1 below

Figure 1 – Ergon Energy and Energex's Corporate Structure



7. OPERATIONAL STRUCTURE

Ergon Energy and Energex operate under a common management team and deliver services through functional units shown in figure 2 below. The integrated operational structure:

- provides a strong focus on continuous improvement and performance;
- aims to reduce costs and maximise operating synergies through streamlined decision making, common network management and IT activities;

- delivers economies of scale in procurement areas; and
- seeks growth in new unregulated areas.

Operational units are split along the lines of asset management and field services, providing the efficient delivery of asset management, construction, maintenance and customer services to the group's two regulated distribution businesses and external customers.

Corporate units provide services to support the operational and non-regulated units and to meet the requirements of key stakeholders. The operational structure is described in more detail below. The business operation units are overseen and managed by the Chief Executive Officer (CEO) and Executive Leadership Team (ELT), comprising Executive General Managers from each respective business unit.

- Field Services – is the accountability of the Executive General Manager - Distribution and is focused on delivering customer needs by safely and efficiently designing, constructing, maintaining and operating the electricity network.

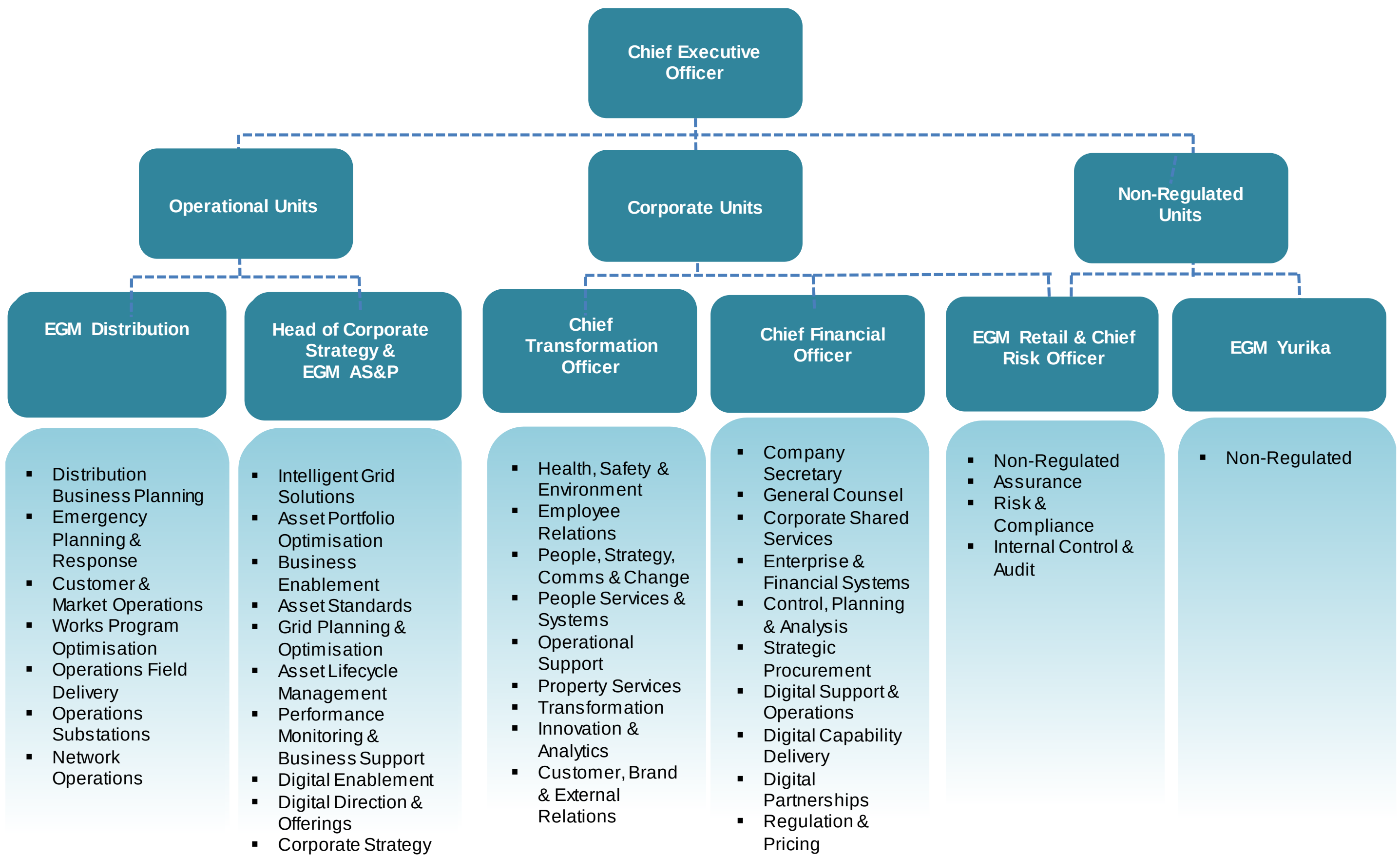
- Asset Management – is the accountability of the Head of Corporate Strategy & Executive General Manager Asset Safety and Performance and involves network strategic planning, network policies and standards development, work program governance, safety strategies, network data management, digital enablement, digital direction & offerings, and corporate strategy.

- Customer, People and Culture – is the accountability of the Chief Transformation Officer and is focused on the provision of corporate human resource functions and payroll administration, occupational health and safety, environment and property services and operational support including fleet, supply, technical training and apprentices, innovation and analytics, customer, brand and external relations.

- Finance – is the accountability of the Chief Financial Officer (CFO) and involves responsibility for the provision of financial accounting, management accounting, taxation, treasury, legal services, company secretariat and corporate shared services such as accounts payable and receivable, records management, insurance, digital support and operations, digital capability delivery, digital partnerships, and Regulation and Pricing.

- Risk and Audit – is the accountability of the EGM Retail and Chief Risk Officer and is focused on risk and compliance, internal control and audit functions.

Figure 2 – Organisational structure



8. CATEGORIES OF DISTRIBUTION SERVICES

The proposed classification of Ergon Energy and Energex's distribution services is outlined in the AER's preliminary framework and approach paper for the regulatory control period commencing 1 July 2020[3]. The AER will make its final service classification in its distribution determinations for Ergon Energy and Energex, which it is scheduled to issue in April 2019.

In accordance with the NER, the AER may classify distribution services as follows:

- Standard Control Services (SCS).
- Alternative Control Services (ACS).
- Negotiated Distribution Services.
- Unclassified services.

Clause 3.2(a)(5) of the CAG requires the CAM to include a specification of the categories of distribution services that the DNSP provides to which costs are to be attributed and the types of persons to whom those services are provided.

The services provided by Ergon Energy and Energex in each category are summarised in Table 1 below.

Standard control services (SCS)

These are distribution services associated with the access and supply of electricity to customers and include the provision of network capability, maintenance and operation of the distribution system. These services are provided to all residential and business customers connected to the electricity network, the cost of which is recovered via Distribution Use of System (DUOS) tariffs.

Alternative control services (ACS)

These are distribution services provided by Ergon Energy and Energex to specific customers where the customer is charged specifically for the service requested and include the provision of metering and public lighting, connection services, and ancillary services. These services are provided to connected customers, third parties, and retailers, the cost of which is recovered by

[3] AER, Preliminary framework and approach for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015, April 2015.

user pay fees or charges that apply to the specific customer requesting the service with the relevant charge being approved by the AER.

Unclassified services

These are distribution services that are capable of being provided on a contestable basis and include the provision of Type 1-4 metering services. These services are not subject to economic regulation under the NER.

Other unregulated services

Ergon Energy and Energex provide a range of non-distribution services that are not subject to regulation by the AER.

Negotiated Distribution Services

Ergon Energy and Energex currently do not provide any services that are classified as negotiated distribution services.

Types of persons to whom distribution services are provided

Ergon Energy and Energex provide distribution services to:

- Network customers: Ergon Energy and Energex provide a range of SCS and ACS to premises within their respective distribution areas. ACS are requested through a retailer or in some circumstances can be requested directly by the customer.
- Third party customers: Ergon Energy and Energex provide ACS to third parties (e.g. local councils, real estate developers).
- Electricity retailers: Retailers purchase wholesale energy that is transported through Powerlink's transmission system, and Ergon Energy and Energex's distribution systems, to network connected customers. Retailers also request ACS (e.g. disconnection, special meter read) on behalf of customers.

9. COST ATTRIBUTION AND ALLOCATION PRINCIPLES AND POLICIES

Clause 3.2(a)(6) of the CAG requires the DNSP to include in its CAM details of the principles and policies used for attributing costs directly[4] to, or allocating costs between, categories of distribution services. These principles and policies must meet the requirements of clause 2.2 of the CAG.

[4] Direct costing is the process of assigning costs associated with staff and/or materials to the entity and piece of work (either capital or operating) that they are attributable to, irrespective of where they originate from.

Clause 3.2.2 of the RFG provides that a DNSP must attribute or allocate costs to distribution services in a manner that is consistent with the cost allocation principles and its approved CAM, as if the cost allocation principles and CAM otherwise applied to the attribution and allocation of costs between distribution services and non-distribution services.

In accordance with clause 2.2.5 of the CAG, Ergon Energy and Energex commit to the following principles:

- Not to allocate the same cost more than once.
- A direct cost will only be allocated to one category of distribution service.
- An indirect cost will only be allocated once between categories of distribution services.
- The same cost will not be treated as both a direct and an indirect cost.
- Only recover the same cost once through the charges for distribution services.

In accordance with the requirements of clause 2.2.2 of the CAG Ergon Energy and Energex confirm that the application of this CAM will facilitate the attribution of costs directly to, or the allocation of costs between, categories of distribution services based on the substance of the underlying transaction or event, rather than the legal form, where they differ. In addition, Ergon Energy and Energex:

- Will not allocate indirect costs using an avoided cost approach without prior approval by the AER (clause 2.2.4(e)).
- Confirm this CAM complies with the distribution ring-fencing guidelines (clause 2.2.6).
- Acknowledge that costs that have been allocated to a service will not be reallocated to another service during the course of a regulatory period (clause 2.2.7).

Ergon Energy and Energex's CAM will employ the principles outlined above to attribute or allocate costs to, and between, distribution services as defined in the CAG and the RFG.

Ergon Energy and Energex's costs comprise the following components:

- Project costs – these include the costs of labour, materials, contractor services and other activities that can be directly attributed to particular distribution services.
- Network overheads – these include expenditure incurred in the functions of network planning and project governance, quality and standards, network control and operational switching, and field support.
- Corporate overheads – these include expenditure incurred for the following functions provided by EQL's corporate units: finance, strategy and regulation and people and culture.
- Non-network overheads – these include expenditure incurred to operate and maintain vehicles owned or leased (e.g. fuel, registration, vehicle maintenance), costs for property occupancy and facility management, and information communication and technology costs (e.g. major systems, software applications, data management, infrastructure services).

These costs relate to both capital and operating expenditure.

Project costs are directly attributed to the different categories of distribution services. Project costs are primarily attributed directly to the relevant service via work orders, invoices and journal entries in the general ledger system. The project cost is booked by cost element (labour, material or contractor) to an account code which is specific to an individual service within a service classification. This process is discussed in more detail in section 9.3 below.

Network, corporate and non-network overheads are classified as indirect to the extent that they cannot be directly attributed to a service. The costs of these "support" activities are allocated across different categories of service as appropriate. This process is discussed in more detail in section 9.4 below.

9.1 Overview of Financial System

The attribution of costs to, and allocation of costs between, distribution services and unregulated services is facilitated by Ergon Energy and Energex's enterprise resource planning (ERP) system. Supporting systems are used for determining inputs into the ERP, such as calculating allocation percentages for overhead costs. Information from these systems is therefore used to calculate the allocators that are used to allocate shared (support) costs between Ergon Energy and Energex's distribution services.

The ERP is used for recording and reporting financial information for Ergon Energy and Energex. The financial information is recorded on the basis of the businesses' Chart of Accounts. When costs are incurred they are processed against an account code. Each account is mapped to a specific distribution service, unregulated activity or shared (support) cost.

9.2 Overview of treatment of costs

Figure 3 below illustrates how we attribute and allocate costs to Ergon Energy and Energex. This is explained in the remainder of this section.

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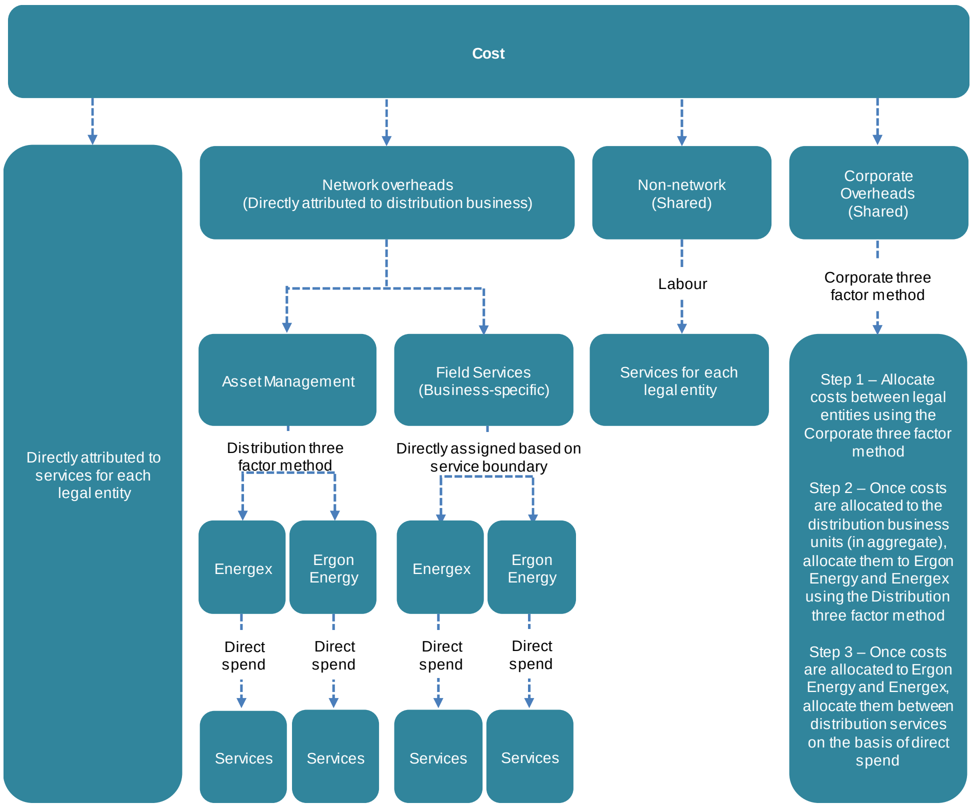
Figure 2 – Attribution and allocation of costs



9.3 Treatment of Directly Attributed Project Costs

Where ever possible, Ergon Energy and Energex directly attribute project costs to services where a clear line of sight exists between the cost incurred and the service delivered – that is, where the expenditure item is identified as being for a single service category and there is no portion of that cost that relates to another service category. Direct costs are attributed by a source document to activities which are mapped to associated services.

The costs that are directly attributed to specific distribution and unregulated services include:

- Labour and labour related costs.
- Inventory and materials.
- Third party contractor costs.
- Other costs.

These directly attributed project costs relate both to capital and operating expenditure. The following table summarises the nature of these directly attributed project costs and how they are attributed to specific services.

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Table 1 – Directly attributed project costs – capital and operating expenditure

Nature of Cost	Description	Attributed to	Basis of Costing
Labour and labour related costs	Salaries, wages and other employee related on-costs (superannuation, payroll tax, workers compensation, annual and long service etc.)	Standard Control Services Alternative Control Services Unregulated services	Directly attributed based on timesheets ultimately linked to service specific account codes. Employee related on-costs are charged as part of the standard labour rate.
Inventory and material costs	Stock items distributed through the warehouse and items purchased directly from external third parties	Standard Control Services Alternative Control Services Unregulated services	Materials are directly attributed to account code based on source documents. Inventory items are issued via requisition to the job based on average cost of the item.
Third party contractor costs	Provision of services by external parties	Standard Control Services Alternative Control Services Unregulated services	Directly attributed to account code based on source documents (e.g. purchase orders)
Other costs	Costs where a direct line of sight between the cost and service exists	Standard Control Services Alternative Control Services Unregulated services	Directly attributed to account code based on source documents.

9.4 Treatment of Shared (Support) Costs

Shared (support) costs encompass costs that are not wholly and exclusively associated with a single business or those costs that are shared between two or more distribution services. These costs are allocated between all categories of distribution services. The numeric quantity or percentage of the allocators will change from time to time throughout the regulatory control period. The sources of shared (support) costs include:

- Network Overheads
- Corporate Overheads
- Non-network Overheads.

Each of these components is addressed in turn below.

Network Overheads

Network overheads either relate to common asset management or business-specific field services.

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Common Asset Management

The asset management function is responsible for the stewardship of network assets. With an integrated operational structure, the asset management function serves both Ergon Energy and Energex. As such, the cost of these services must be allocated between the businesses.

These costs are allocated in a two-step process as follows:

- To distribution business via a distribution three factor method
- Following allocation to distribution businesses, costs are allocated to services on the basis of direct spend.

Ergon Energy and Energex have assessed that the most appropriate causal allocator for network overheads between distribution businesses is by a distribution three factor method, based on an equal weighting of **direct spend, customer numbers and asset value**. Utilising the three factor method allows consideration to be taken of the extent that expenditure is dependent on the overall size of the distribution network and effort is driven by all activities undertaken to maintain, review and manage the network business.

The distribution three factor method will be applied to each year's budget to determine the quantum of the cost allocators for that year. This will ensure that the allocation is current and reflects changes in size, scale and scope of activities.

Following allocation to Ergon Energy and Energex, the network expenditure is allocated between distribution services based on the share of direct spend. This allows for a balanced view of relative effort as well as limits the incentive to make decisions about the method of delivery.

Business-specific Field Services

The field services function is accountable for delivering customer needs by safely and efficiently designing, constructing, maintaining and operating the electricity network. The costs, through the organisational area, can be identified as relating solely to a specific distribution business. As such, the costs incurred are assigned directly to each respective business. Once within the distribution business, field service network overheads are allocated to services on the basis of direct spend.

All Ergon Energy and Energex staff are employed through EQL. Ergon Energy and Energex are allocated indirect costs for field staff that are based in their respective areas. Where a staff member that is based in one area performs work in the other area then work orders are used to directly allocate their time from EQL.

Non-network Overheads

Non-network overheads relate to expenditure associated with fleet, information technology and facility management activities. Non-network costs will be charged to services on the basis of the share of direct labour. There is a strong causal relationship between the number of staff and the need for and use of non-network activities. In essence, more staff generate more cost pressure for non-network support activities. For example, there is a strong correlation between labour and fleet usage on the basis of where labour is utilised, as fleet is required to transport the employee and requisite equipment.

Corporate Overheads

This pool of costs relates to the expenditure incurred by corporate units to provide management and support services to the operational and non-regulated units within the organisation. Corporate overheads are allocated as follows:

- Step 1 – Allocate costs between legal entities, using a corporate three factor method based on an equal weighting of asset value, revenue and labour.
- Step 2 – Once costs are allocated to the distribution business units (in aggregate), allocate them to Ergon Energy and Energex using the distribution three factor method based on an equal weighting of direct spend, customer numbers and asset value.
- Step 3 – Once costs are allocated to Ergon Energy and Energex, allocate them between distribution services on the basis of direct spend.

The corporate three factor method in Step 1 – using asset value, revenue and labour – provides the most appropriate causal allocator between business units because corporate costs are dependent on the overall size of the assets being supported (i.e. asset base), the customer base (i.e. revenue) and effort (i.e. labour). Utilising the three factor method allows consideration to be taken of materiality, based on size and scale, of other unregulated services in comparison to the regulated activities.

The distribution three factor method in the second stage for allocating costs to Ergon Energy and Energex – using direct spend, customer numbers and asset value – is consistent with the approach being applied to allocate common asset management costs, discussed above.

The two three factor methods will be applied to each year's budget to determine the quantum of the cost allocators for that year. The three factor process will include a review requirement linked to a material change in size, scale and scope of the unregulated activities or a material increment or decrement in the services provided.

Following allocation to Ergon Energy and Energex, corporate overheads are allocated between

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distribution services based on the share of direct spend as it is expected to have a strong correlation with the consumption of the overhead.

10. CAM CONSISTENCY

Policies and principles relating to allocations will be consistently applied across accounting periods to ensure that regulatory financial reports are prepared on a consistent basis over time.

Ergon Energy and Energex will apply the CAM consistently each year. As the nature of costs may change from time to time, Ergon Energy and Energex will periodically review the CAM and make appropriate changes to ensure that its application results in:

- Consistency with prior accounting and regulatory periods.
- The basis of cost attribution or cost allocation being considered on the substance of the transaction over its legal form.

11. RECORD KEEPING

The ERP provides the capability to record and report financial information based on the CAM principles and policies for both statutory and regulatory purposes.

Outputs from this system include the standard suite of financial reports such as, trial balance, general ledger, profit and loss statement, balance sheet and numerous other views of the posting of financial transactions (directly allocated and shared costs) which can be produced depending upon the nature of the enquiry. Transactions, once posted, cannot be deleted so that prior year data is therefore also maintained.

Supporting systems are used for input into the ERP for, amongst other things, calculating the quantities and/or percentage of allocators for the allocation of shared (support) costs to cost pools and to the relevant services.

All records will be appropriately retained in accordance with regulatory and legislative requirements.

All information submitted to the AER through regulatory information notices is subject to external audit prior to submission.

12. MONITORING COMPLIANCE WITH CAM AND CAG

The Finance and Corporate Services Business Unit is responsible for monitoring compliance with the CAM across Energex and Ergon Energy. Operationally, the General Manager Financial Control will be responsible on a day to day basis for compliance.

Ergon Energy and Energex's annual statutory financial statements and the ERP are reviewed by our external auditors.

Ergon Energy and Energex will undertake an independent audit of their regulatory financial reports to ensure they are compliant with regulatory reporting requirements, including the CAM.

Ergon Energy and Energex can also independently monitor and report on the CAM's application through internal and external audit programs that are in addition to those specified above. These include scheduled or ad hoc programs of specific areas identified by either management or shareholders.

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APPENDIX A – COMPLIANCE WITH CAG, RFG AND NATIONAL ELECTRICITY RULES

General obligations

Rules	CAG	Requirements	Addressed
6.15.4(a)	1.5, 3.1(a)	DNSP must develop a proposed CAM for submission to the AER	This document
6.15.4(b)	1.5, 3.1(b)	DNSP's proposed CAM must give effect to and be consistent with the CAG	This document
	5.4	DNSP must maintain current copy of approved CAM on its website	Version history and date of issue

Contents of Cost Allocation Method

CAG	RFG	Requirements	Addressed
3.2(a)(1)		Version number	Version history and date of issue
3.2(a)(2)		DNSP's commitment to history and date of issue	Version history and date of issue
3.2(a)(3)		Statement of nature, scope and purpose of document and way it is to be used	Section 3
3.2(a)(3)A		Accountabilities for implementation	Section 5
3.2(a)(3)B		Responsibilities for updating, maintaining and applying document and for internally monitoring and reporting its application	Section 5

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CAG	RFG	Requirements	Addressed
3.2(a)(4)		Description of corporate and operational structure	Section 6, Section 7
3.2(a)(5)		Specification of service categories and types of persons to whom services provided	Section 8
3.2(a)(6)		Principles and policies for attributing costs to, and allocating costs between, categories of distribution services in accordance with clause 2.2 of CAG	Section 9
3.2(a)(7)	3.2.2(c)	Description of how will maintain records of attribution and allocation	Section 11
3.2(a)(8)	3.2.2(c)	Description of how will monitor compliance with CAM and CAG	Section 12
3.2(a)(9)		Commencement date	Section 3

Cost allocation principles and policies

Rules	CAG	RFG	Requirements	Addressed
6.15.2(1)	2.2.1(a)	3.2.2(a) and 3.2.2(b)	Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable: • AER to replicate reported outcomes • DNSP to demonstrate that it is meeting requirements	Section 9
	2.2.1(b)(1)		Include specified information on directly attributable costs to enable AER to replicate reported outcomes	Section 9.3

Rules	CAG	RFG	Requirements	Addressed
	2.2.1(b)(2)		Include specified information on shared costs to enable AER to replicate reported outcomes	Section 9.4
6.15.2(2)	2.2.2		Attribute costs directly to, or allocated costs between, categories of distribution services based on substance of underlying transaction or event not legal form	Section 9
6.15.2(3)(i)	2.2.3		Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service	Section 9.3
6.15.2(3)(ii)	2.2.4		Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that: • Shared cost is immaterial • Causal relationship cannot be established without undue cost or effort in which case may use non-causal allocator in specified circumstances	Section 9.4
6.15.2(4)			Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator	Section 9.4
6.15.2(5)	2.2.5		Do not allocate the same cost more than once	Section 9
6.15.2(6)	2.2.6		Detailed principles, policies and approach used to attribute costs directly to, or allocated costs between, categories of distribution services must be consistent with the distribution ring fencing guidelines	Section 9
6.15.2(7)	2.2.7		Costs that have been attributed or allocated costs to distribution services must not be reattributed or reallocated to another service during the regulatory control period	Section 9