Essential Energy

Cost Allocation Method

April 2014 Version 3

Contents

Version History

Version number	Date	Details of changes
1	November 2003	N/A – first version under AER Guidelines.
2	February 2008	Updated to reflect change in business structure Submitted for 2009 Determination Process
3	April 2014	Updated to reflect Guidelines and review by KPMG and AER staff New Business Structure following amalgamation of Networks NSW Changes to reflect AER Framework and Approach paper on service classification, particularly to incorporate allocations to Alternate Control Services

In accordance with clause 3.2 (a) 1 and 2 of the Cost Allocation Guidelines, Essential Energy will retain a listing of the Cost Allocation Method (CAM) versions and any modifications.

1. Introduction

Essential Energy is a NSW Government-owned corporation, with responsibility for building, operating and maintaining Australia's largest electricity network - delivering essential network services to more than 800,000 homes and businesses across 95 per cent of NSW, parts of southern Queensland and northern Victoria. Essential Energy also provides water and sewerage services to more than 10,000 homes and businesses in Far West NSW.

With around 4,000 employees based across 100 depots and regional offices - Essential Energy is one of the largest employers in regional NSW.

Essential Energy is committed to delivering safe and reliable essential services to families and businesses across regional NSW, responding quickly and effectively to local needs and priorities and achieving consistently strong customer satisfaction levels.

2. Background

2.1. Regulatory requirements

Clause 6.15.4 of the National Electricity Rules (NER) requires that Essential Energy must submit to the Australian Energy Regulator (AER) for its approval, a document setting out its proposed Cost Allocation Method (CAM). The proposed CAM must give effect to, and be consistent with, the AER's *Cost Allocation Guideline* issued in June 2008.[1]

This document constitutes Essential Energy's CAM for the 2014-19 regulatory control period. Clause 6.15.1 of the NER requires Essential Energy to comply with the AER approved CAM.

2.2. Purpose of the CAM

The purpose of this CAM is to establish a method for attributing or allocating costs to, or within, direct control services (standard and alternative), negotiated services (in the event they may arise) and unregulated distribution services. In addition, this CAM is also used to allocate all shared costs to other aspects of Essential Energy's business not regulated under the NER (e.g. water services) in a consistent manner with the allocation of costs to the distribution business.

Essential Energy confirms that this CAM applies to the allocation of all costs relevant to its role as a Distribution Network Service Provider (DNSP), and has been prepared in accordance with the requirements of the NER and the AER Guidelines. From 1 July 2014, this CAM will be used for the preparation of:

- expenditure forecasts included in Essential Energy's 2014-19 Regulatory Proposal;
- determining proposed prices for alternative control services, to be outlined in the Regulatory Proposal; and
- annual statements to be submitted to the AER in accordance with any regulatory information instrument issued by the AER.

It is noted that the application of this CAM also includes the allocation of costs to standard control services when determining the value of any additions or reductions in Essential Energy's Regulated Asset Base as part of its Regulatory Proposal, in accordance with NER Schedule 6.2.1(f).

[1] AER – *Electricity Distribution Network Service Providers, Cost Allocation Guidelines June 2008*

3. Essential Energy's Organisational Structure

3.1. Recent changes to Essential Energy's business

Essential Energy has undergone significant change since its previous CAM was submitted to the AER in 2008, including:

- **Sale of gas network in Wagga Wagga and surrounding areas** to Envestra in October 2010, but continued to operate under a transition arrangement until end of August 2011.
- **Sale of electricity and gas retail businesses**, including the trading name of Country Energy, to Origin Energy on 1 March 2011.
    - Essential Energy continued to operate the Country Energy retail business on behalf of Origin under a Transitional Services Agreement (TSA) which ended in October 2013.
    - Affected employees are guaranteed employment until March 2016 as part of the sale. These costs have been provisioned by the NSW Government – referred to in this CAM as stranded costs.
    - Retail functions have been isolated to a particular division and are expected to cease prior to the 2014/15 financial year. Any functions or costs remaining after this date, such as the billing system, are referred to in this CAM as 'dissynergy costs'. Although dissynergy costs will be ramped down wherever possible, some costs may continue and will need to be absorbed by the rest of the business.
- Essential Energy's **business structure was consolidated** from eight regions to five in the latter part of 2011. This change was carried out to ensure we are able to deliver cost effective essential services to our network customers, increase our focus on safety and productivity, and ensure consistency in the regional operations across our network.
- In June 2012, an umbrella company called **Networks NSW**, shown in Figure 1, was formed to collectively manage the three NSW state owned electricity distributors of Essential Energy, Endeavour Energy and Ausgrid. This new structure, shown in Figure 2, will reduce duplication in our corporate areas, resulting in new efficiencies which will help to lessen the impact of rising electricity prices on our customers. Essential Energy will continue as a separate organisation under a common Board and CEO. The Networks NSW structure is depicted below.

Figure 1: Umbrella Agreement

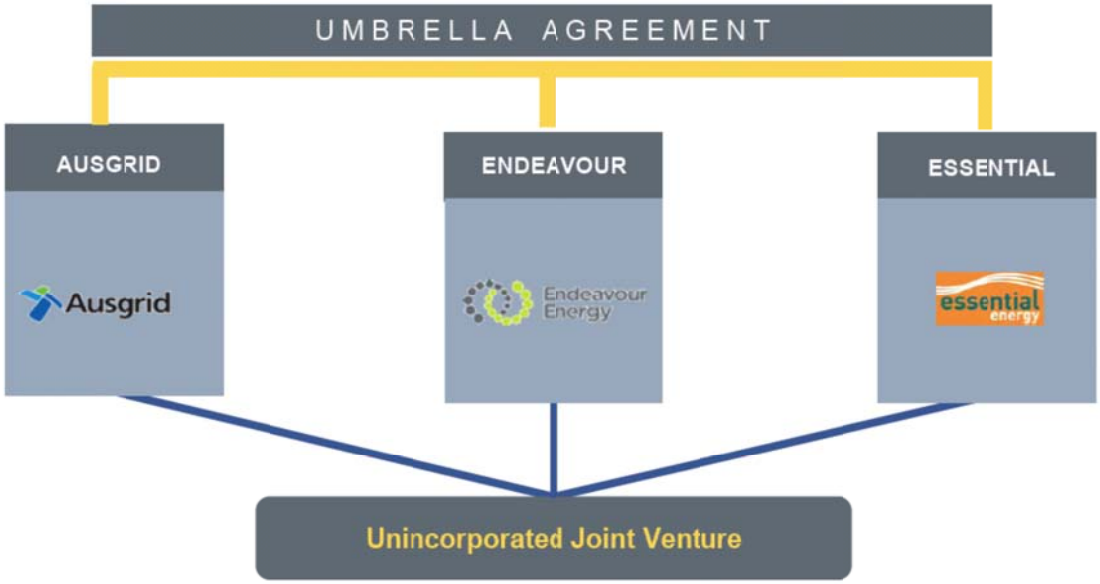
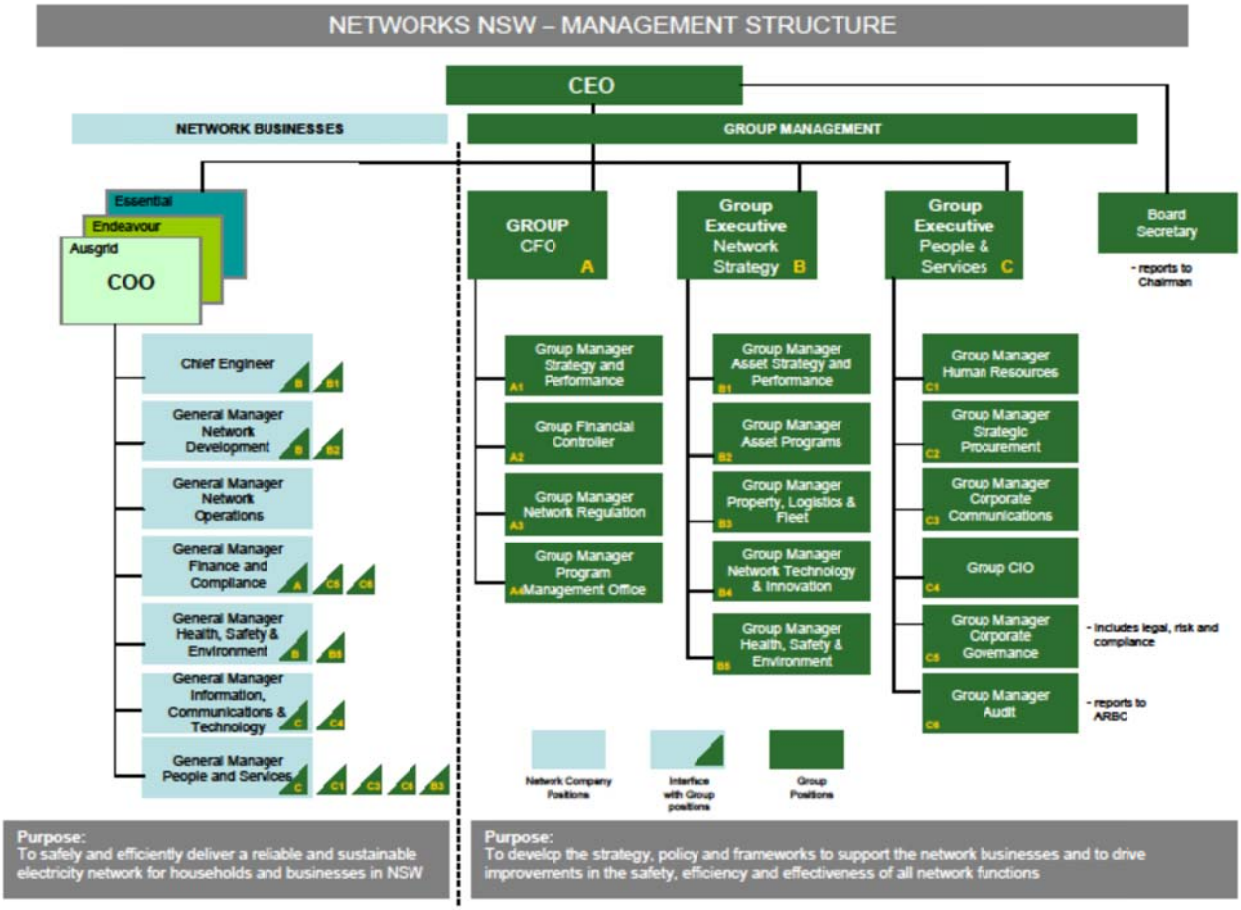


Figure 2: Organisation structure



3.2. Essential Energy's corporate structure and business

Table 1 outlines the core functions of each of Essential Energy's seven core business divisions. Figure 3 is Essential Energy's organisational chart.

Table 1: Essential Energy's core business divisions

Division	Description
Chief Engineer	Network strategy and planning, customer connections, metering strategy, standards and policies
Network Development	Vegetation management, street lighting, subtransmission and substation design and project management, network reporting
Network Operations	Regional network operations and management, meter reading, water
People & Services	Human resources, organisational development, property and fleet management, procurement, corporate and external communications, stakeholder management, retail functions on behalf of Country Energy/Origin
Finance and Compliance	Financial control, finance transactions & services, commercial decision & support, strategy and performance, risk and legal, credit control and insurance. regulation, governance, risk & compliance
Health, Safety and Environment	Health and safety management and environmental services
Information, Communications and Technology (ICT)	Information technology, management of communication systems

Figure 3: Essential Energy Organisation Chart

	Essential Energy Structure						
ELG	Chief Operating Officer						
General Managers	Chief Engineer	GM Network Development	GM Network Operations	GM Health Safety & Environment	GM Information, Communication & Technology	GM Finance & Compliance	GM People & Services
Branches (Functions)	• Manager Electrical Safety & Authorisations • Manager Primary Systems • Manager Secondary Systems • Manager Asset & Network Planning • Manager Network Data & Performance • Manager NBN • Manager Metering Strategy	• Manager Maintenance • Manager Capital Programs • Manager Vegetation Programs • Manager Major Projects • Manager Portfolio Management Office • Manager Project Development • Manager Streetlighting	• Manager System Control • Manager Operational Performance • Manager Network Connections • Manager Regional Operations • Manager Transmission Services/Zone Substations • Manager Water Management • Manager Metering Services • Manager Meter Reading	• Manager HSE Management Systems & Reporting • Manager Safety & Environmental Services • Manager Health & Injury Managerment • Manager HSE Assurance & Improvements	• Manager Governance, Strategy & Sourcing • Manager Network Systems • Manager Business & Support Systems • Manager Infrastructure Systems • Manager Service Management	• General Counsel • Financial Controller • Manager Finance Transactions & Services • Manager Commercial & Decision Support • Manager Governance Risk & Compliance • Manager Network Regulation • Manager PMO & Corporate Planning	• Manager internal Audit • Manager Procurement & Logistics • Manager Property • Manager Fleet • Manager Human Resources Operations • Manager Workplace Relations • Manager Corporate Affairs • Manager Learning & Development • Manager Customer Operations • Manager Retail Transitions

3.3. Electricity distribution services

Clause 3.2(a)(5) of the AER's Cost Allocation Guidelines requires that the CAM include a description of the categories of distribution services that Essential Energy provides to which costs are attributed, and the types of persons to which these services are provided.

Under clause 6.2 of the NER, distribution services are classified as:

- Direct control services, which are further categorised into:
  - Standard control services
  - Alternative control services
- Negotiated distribution services.

Essential Energy provides the following distribution services:

- **Standard Control Services**
  Standard control services are typically associated with the provision of core network, connection and metering services for the supply of electricity to customers via the distribution network. These services include, for example, planning, construction, maintenance and operation of the distribution network. Standard control services are provided to all Essential Energy customers who are connected to the electricity network and for whom electricity tariffs apply.

- **Alternative Control Services**
  Alternative control services are typically associated with services supplied to a specific customer and are in addition to Essential Energy's core network services. These services include, for example, metering services (provision of types 5-6 meters, maintenance, reading and data services), ancillary services related to electricity supply that are typically provided to individual customers on request, for example, disconnection of meter or relocation of a power pole), and public lighting services provided to local councils. Alternative control services may be provided to all residential and business customers and a number of other parties including retailers, developers, builders, and governments etc.

Essential Energy currently does not have any negotiated distribution services.

In accordance with Chapter 11 of the NER (NSW Transitional Rules) Essential Energy's previous CAM was developed on the basis of service classifications determined by the NSW Independent Pricing and Regulatory Tribunal (IPART). In this CAM, the service classification for some of Essential Energy's services have been updated in recognition of the AER's decision on the classification of distribution services for NSW distributors for the 2014-19 regulatory period.

3.4. Other services provided by Essential Energy

In addition to electricity distribution network services, Essential Energy also provides water services, energy retail services under a TSA (mentioned above) and other unregulated services.

- **Water services**
  Essential Water is part of Essential Energy's Infrastructure Operations division and provides water supply services to over 10,000 customers in Far Western NSW, including Broken Hill, Menindee, Sunset Strip and Silverton. In addition sewerage services are provided to Broken Hill.

- **Other unregulated Services**
  Some activities are undertaken by the business that are not part of direct control services, Water or Retail divisions. These unregulated services include such activities as contestable metering services, Energy Answers for customers wanting advice on power factor etc., and National Broadband Network activities.

4. Cost Allocation Principles and Policies

4.1. Overview of approach

Essential Energy uses a financial information management system (PeopleSoft) to collect and report all financial information. Job estimates and project management are stored in separate but linked systems, such as Works and Assets Management System (WASP) and Primavera. Field services labour is charged to specific projects (such as system capex and emergency response), via timesheets. Labour oncosts such as workers compensation, provision of leave and payroll tax are added to labour costs and considered direct costs of that labour. Shared costs (overheads) are allocated on the basis of allocation mechanisms which are described in this CAM.

Table 2 and Table 4 below provide a complete and exhaustive list of the cost allocation policy and framework for Essential Energy for directly attributable costs and shared costs respectively.

4.2. Capital and operating expenditure

Essential Energy's chart of accounts and systems have been established so that both opex and capex can be separately accounted for and reported in accordance with the CAM and regulatory reporting requirements.

This CAM does not distinguish between capital and operating expenditure in the treatment of costs. However, each cost is identified and classified in accordance with Essential Energy's Capitalisation Policy. The allocation of costs to business segments occurs independently of whether costs are capital or operating in nature.

4.3. Cost allocation principles

3.2(a)(6) of the Cost Allocation Guidelines requires that this CAM include Essential Energy's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of these Guidelines.

Essential Energy confirms that this CAM is based on the Cost Allocation Principles specified in 6.15.2 of the NER and 2.2 of the Guidelines and is giving effect to these principles. More specifically, Essential Energy confirms that for both directly attributable and shared costs:

- 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.,This is detailed in section 4.4 and 4.5 where the cost attribution and allocation processes are explained.
- The same costs are not allocated more than once. Specifically, the same cost cannot be treated as both a direct cost and a shared cost due to controls and processes in place in the financial system, PeopleSoft. This is detailed in section 4.4 and 4 where the cost attribution and allocation processes are explained.
- Direct costs can only be attributed once to a single category of distribution services and shared costs are only allocated once between categories of distribution services due to controls and processes in place in the financial system PeopleSoft. These controls and processes therefore ensure that Essential Energy only recovers the same cost once through the charges that it levies for its distribution services. This is detailed in section 4.4 and 4.5 where the cost attribution and allocation processes are explained.
- Shared costs are put into a pool and allocated over standard control, alternate control and unregulated business activities. The allocation is discussed further in section 4.5.
- Essential Energy's Regulatory reporting team review the allocation process and if necessary finance staff adjust recovery rates during and at the conclusion of each financial year to ensure there is no under or over recovery of shared costs to standard control, alternative control and unregulated services. The responsibilities with Essential Energy for giving effect to this cost allocation method are discussed in section 6.
- Detailed principles, policies and approach used to attribute costs directly to categories of distribution services are consistent with the *Distribution Ring Fencing Guidelines* in 6.17 of the NER; as detailed in sections 4.4 and 4.5.

- Costs which have been allocated to a particular service are not reallocated to another service during the course of a regulatory control period, as detailed in sections 4.4 and 4.5 where the financial system, PeopleSoft is explained.

Section 4.4 and 4.5 details how the above cost allocation principles have been applied in the allocation of Essential Energy's directly attributable costs and shared costs respectively.

4.4. Directly attributable costs

Directly attributable costs are those which are identified as being fully dedicated to a particular service category. This is done on the basis that the function area or department works solely on one service such as standard control and there is no portion of their costs or expenses that relate to another service category.

Directly attributable costs are identified in the financial system (PeopleSoft) as belonging to a particular service category in one of two ways; through projects or through function areas.

Projects

Costs such as labour, contractors and materials may be charged directly to a project that is designated as relating to a particular service category. For example Project type 11445 – Underground Asset Inspection relates to standard control services and project type 70055 – Quality of Supply relates to unregulated services (Water Division).

Projects are the lowest level of aggregating costs/transactions in PeopleSoft and each project is set up with a project type that identifies it as being of an operating or capital nature in accordance with Essential Energy's capitalisation policy. The project type also classifies the project as being by service category in accordance with this CAM.

Project types also identify costs as being either direct or shared. On this basis directly attributable costs are attributed direct to service categories, Shared costs are included in the overhead pool which is discussed in section 4.5.

The controls within PeopleSoft ensure that a project cost can only be attributed or allocate to a service category once.

Function Areas (Departments)

The second method by which costs are directly attributed in PeopleSoft relates to function area. The costs of a function area that are not charged directly to a project but relate solely to a service category are attributed directly to that service category when the regulatory accounts are prepared, for example Street lighting Management is costed directly to Alternative Control and costs of the NBN function are costed directly to unregulated services. This is the case even though they may not have been charged directly to a project but are never the less directly related to that service area alone. Where costs of a function area are not directly attributed to a service category they are included in the shared cost pool.

As with project costs the controls within PeopleSoft ensure the costs of a function can only be attributed once to a service category. As a result PeopleSoft gives effect to this CAM by excluding the direct costs related to function areas identified from the shared cost pool.

Table 2 sets out the directly attributable costs at the function level for 2014-19.

Table 2: Directly attributable costs – Cost allocation policies and framework

Division / Function	Nature	Category of distribution services attributed to	Characteristics of attribution
Chief Engineer			
Primary Systems	Network Standards, Specifications and Asset Specific Expertise	• Standard Control	All costs relate to electricity network - standard control
Network Asset Planning	AM Plan Development, Network Planning	• Standard Control	All costs relate to electricity network - standard control
Streetlighting	Costs incurred operating the street-lighting business	• Alternative Control	All costs relate to the electricity network – alternative control
NBN	Work relating to roll out of National Broadband network	• Unregulated	All costs relate to unregulated business
Network Development			
Capital Programs	Program Management	• Standard Control	All costs relate to electricity network - standard control
Vegetation Programs	Vegetation Management	• Standard Control	All costs relate to electricity network - standard control
Major Projects	Project Management	• Standard Control	All costs relate to electricity network - standard control
Network Operations			
Water Management	Costs specific to the water business segment	• Water[2]	All costs are directly attributable to the water business segment
System Control	System Operations, Network Security	• Standard Control	All costs are directly attributable to the electricity network - standard control
Transmission[3] Services/Zone Substations	Strategy and Management of Transmission Lines and Zone Substations	• Standard Control	All costs are directly attributable to the electricity network - standard control
People & Services			
Retail Transitions	Retail functions on behalf of Country Energy/Origin under the TSA (scheduled to end in October 2013)	• Unregulated	All costs relate to retail activities

[2] Although the Water business is an unregulated service for the purposes of the AER it is state regulated and this CAM is also used to derive their allocation of shared service costs.
[3] Transmission here is the internal name given to describe how Essential Energy manages subtransmission lines as part of the distribution network and is not meant to suggest that Essential Energy provides "Transmission Services" as described in the NER. It is therefore regulated as part of standard control services by the AER

4.5. Shared costs

Shared costs are costs which are identified as contributing to more than one service category. As discussed above in section 4.4 Essential Energy develops its shared cost pool by allocating costs relating to projects and function areas that are not directly attribute to a service category. Essential Energy needs to allocate its shared cost pool across service categories. The shared cost pool is allocated to projects that, as discussed in section 4.4, relate to a service category.

Essential Energy has undertaken detailed assessments to identify the most appropriate cost driver to allocate its shared costs. Where possible causal allocators are used, however where this is not possible costs are allocated on a non-causal basis.

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Essential Energy needs to annually calculate the value (percentage) of the allocators that is used to allocate shared costs. This is done when the regulatory accounts are prepared each year. These calculations are based on the actual work activities, statistics, dollars and other determinants as described in this CAM. For example the actual number of meter reads done for electricity and water customers in the year is used to allocate costs of that function to alternative control and unregulated services.

These values (percentages) of allocators are maintained in an Excel workbook and are provided to Essential Energy's auditor as part of the annual audit process of the regulatory accounts. The values (percentages) of allocators that are updated each year are reflected into the PeopleSoft financial system as the basis for allocating shared costs. PeopleSoft allocates the shared cost pool using the allocators over those projects that are identified as direct costs of a service category. This is done on a monthly basis.

Non-causal Allocators

In accordance with clause 2.2.4(c)3 of the AER's Cost Allocation Guidelines, this section presents the supporting information for the non-causal cost allocators used by Essential Energy. The Guidelines state that if a shared cost is immaterial, or if a causal relationship cannot be established without undue cost and effort, then Essential Energy may allocate the costs using a non-causal allocator, with the AER's approval.

It is not always feasible for Essential Energy to establish a causal basis for allocating shared costs between the service categories. This is because in some cases no causal allocator exists, and in other cases because it would not be feasible to obtain and maintain the data required to calculate a causal allocator. Essential Energy notes that this approach is similar to that used by other electricity distribution businesses.[4]

Essential Energy uses three non-causal allocators, direct labour, FTE numbers and fleet usage. The way Essential Energy determines the values for these non-causal allocators is as follows. For the direct labour allocator Essential Energy determines the weighted average percentage of labour this is directly attributed to different service categories. For example if 90 per cent of direct labour costs relate to standard control services, 5 per cent to alternative control services and 5 per cent to non-regulated services, these percentages are used as the non-causal allocator of the relevant shared costs.

Essential Energy determines the values of the other non-causal allocators in the same manner.

Essential Energy considers this weighted average approach to be the most appropriate allocator for those shared costs, because it leverages the direct cost allocations as well as all other causal allocators used in the business by averaging the allocations according to their relative weightings of salary (Direct Labour), FTEs and Fleet usage (the three weighted average allocation methodologies).

Worked examples of the weighted average approach for the direct labour (salaries) and Fleet usage methodologies are provided in Figure 4.

[4] For example, Aurora and ETSA Utilities.

Figure 4: Worked examples of non-causal (weighted average) allocators

Illustrative Example: Direct Labour

Allocators and Departments	Departments	Departmental Salaries	Total Salaries for Allocators	Allocation rate			
				Regulated Network	Retail	Water	Unregulated
100% Regulated	• Vegetation • Network connections • Streetlights	• $30,000,000 • $20,000,000 • $50,000,000	$100,000,000	100%	0%	0%	0%
Revenue	• Regulatory pricing • Regulatory affairs • Risk management	• $5,000,000 • $10,000,000 • $5,000,000	$20,000,000	50%	20%	10%	20%
Customer Numbers	• Customer payments • Call centres	• $20,000,000 • $10,000,000	$30,000,000	20%	70%	5%	5%
Weighted Average allocation rates for direct labour			**$150,000,000**	**77%**	**17%**	**2%**	**4%**

Note: illustrative only - actual model measures weighted average of all causal allocators (i.e. will include other direct allocations and causal indirect allocations)

Illustrative Example: Fleet usage

Allocators and Departments	Departments	Departmental Fleet Hire Charges	Total Fleet Hire Charges for Allocators	Allocation rate			
				Regulated Network	Retail	Water	Unregulated
100% Regulated	• Vegetation • Network connections • Streetlights	• $30,000 • $20,000 • $50,000	$100,000	100%	0%	0%	0%
Revenue	• Regulatory pricing • Regulatory affairs • Risk management	• $5,000 • $2,000 • $5,000	$12,000	50%	20%	10%	20%
Commercial Projects	• Commercial Projects • Business Review • Special Projects	• $20,000 • $10,000 • $30,000	$60,000	70%	10%	5%	5%
Weighted Average allocation rates for direct labour			**$172,000**	**86%**	**5%**	**2%**	**3%**

Note: illustrative only - actual model measures weighted average of all causal allocators (i.e. will include other direct allocations and causal indirect allocations)

On the basis of the above, Table 3 details the causal and con causal cost allocators that Essential Energy will use to allocate costs for the 2014-19 regulatory period.

Table 3: Shared cost allocators

Methodology	Data inputs and description
Causal (data based on specific data analysis)	Various methods of allocation based on the following data sources: • FTE time spent on projects • Customer complaints and calls • Meter reads • Revenue
Causal (using managerial estimates)	Various methods of allocation based on the following management estimates: • Estimated FTE time allocation • Corporate affairs • Financial analysis • Work efforts
Non causal	Where no reasonable causal allocator is feasible (as above), allocations are made on the basis of all other allocations for: • Direct labour • FTE numbers • Fleet usage

Table 4 shows how these causal and non-causal allocators will be used to allocate shared costs at the function level for 2014-19

Multiple allocators will be used for various departments within a division/function as a result of the differing work activities performed by each department within the division. This is done to accurately reflect the cost of these functions as they relate to standard control, alternative control or unregulated activities.

Table 4: Shared costs – Cost allocation policies and framework

Division / Function	Nature	Categories of distribution services	Allocator	Reason for allocation
Chief Engineer				
Electrical Safety & Authorisations	Electrical safety	• Standard Control • Alternative Control	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Secondary Systems	Network Standards, Specifications, SCADA and Network Technology Leadership	• Standard Control • Alternative Control	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Network Data & Performance	Network Performance Management, Network Asset Information	• Standard Control • Alternative Control	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Maintenance	Network Services/Maintenance	• Standard Control • Alternative Control	• FTE time spent on projects (causal)	Reflects the costs of this function being driven by hours spent on standard or alternative control projects
Portfolio Management Office	Portfolio Management	• Standard Control • Alternative Control	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Project Development	Engineering Design and Development	• Standard Control • Alternative Control	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Metering services	Meter field testing, failure response and ad-hoc replacement/installation	• Standard Control • Alternative Control • Unregulated services	• FTE time spent on projects (causal)	Reflects the costs of this function being driven by hours spent on standard or alternative control projects
Network Operations				
Meter reading	Meter reading costs for small electricity and water customers (Type 5 – 7 meters)	• Alternative Control • Unregulated	• Meter reads (causal)	Actual number of meter reads per service type is accurate allocator of costs
Operational Performance	Project Coordination & Centralised Scheduling, Operations Performance & Improvement	• Standard Control • Alternative Control • Unregulated	• FTE time spent on projects (causal)	Reflects the costs of this function being driven by hours spent on standard or alternative control projects
Network Connections	Network Connections	• Standard Control • Alternative Control	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Regional Operations	Works Delivery	• Standard Control • Alternative Control	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
People & Services				
Internal Audit	Systematic assessment of the effectiveness and reliability of Essential Energy's internal controls and processes	• Standard control • Alternative control • Water • Unregulated services	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour

Division / Function	Nature	Categories of distribution services	Allocator	Reason for allocation
Human Resources Operations	Business Partners	• Water • Standard control • Alternative control • Unregulated services	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Human Resources Operations	Recruitment and Mobility, HR Services		• FTEs (non-causal)	Reflects the costs of this function being predominantly driven by FTE numbers
Workplace Relations	Employee/Workplace Relations	• Standard control • Alternate control • Unregulated services • Water	• FTEs (non-causal)	Reflects the costs of this function being predominantly driven by FTE numbers
Procurement & Logistics	Performance, compliance & Reporting, Category Management & Reporting, Demand Management, Strategic Sourcing, Supplier Management, Commercial Contract Management, Ordering/fulfilment, Inventory Management, Project Materials Management, Distribution Management, Warehouse Operations, Disposals Management	• Standard control • Alternate control • Unregulated services • Water	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Property	Strategy Delivery & Portfolio Planning, Capital Transactions, Facility Management, Security	• Standard control • Alternate control • Unregulated services • Water	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Fleet	Fleet Business Operations, Fleet Technical, Fleet Transactional, Fleet Maintenance Management	• Standard control • Alternate control • Unregulated services • Water	• Fleet usage (non-causal)	Reflects the costs of this function being predominantly related to usage of fleet
Corporate Affairs	Media, Digital, Government, Issues Management, Internal Communications, Brand, Stakeholder Management, Sponsorships	• Standard control • Alternate control • Unregulated services • Water	• Managerial estimates based on FTE time on corporate affairs (causal)	Management has recorded effort spent on each business segment
Learning & Development	Staff training	• Standard control • Alternative control • Water • Unregulated services	• FTEs (non-casual)	Reflects the costs of this function being predominantly driven by FTE numbers

Division / Function	Nature	Categories of distribution services	Allocator	Reason for allocation
Customer Operations	Includes costs incurred in processing customer affairs and complaints	• Standard control • Alternative control • Water • Unregulated services	• Customer complaints (causal)	The number of complaints is a good indicator of the cost of processing customer affairs where complaints make up the majority of costs of the department
Finance and Compliance				
General Counsel	Secretary activities	• Standard control • Alternative control • Water • Unregulated services	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Financial Control	Includes financial/board reporting, fixed assets, policy, Statutory & RIN accounts, audit, Tax compliance & returns	• Standard control • Alternate control • Unregulated services • Water	• Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Finance Transactions & Services	Includes Accounts Payable & Receivable, Billing and Payroll	• Standard control • Alternate control • Unregulated services • Water	• The majority of items are allocated using managerial estimates based on FTE work effort • Payroll is allocated using FTEs	For the majority of items, management has recorded effort spent on each business segment. For payroll, there is no ideal causal allocator. FTE numbers working on these services is a good indicator of costs
Commercial & Decision Support	Includes Business unit performance reports, Gross Margin, Business Partner, Budgeting & Forecasting, Project Accounting and Systems accounting.	• Standard control • Alternate control • Unregulated services • Water	• The majority of items are allocated using Direct Labour. • Financial analysis is based on managerial estimates based on FTE time on financial analysis	Reflects the costs of this function being predominantly labour For financial analysis - management has recorded effort spent on each business segment
PMO & Corporate Planning	Includes Benefit Tracking, Business transformation, PMO Reporting, Post implementation reviews, SCI coordination, Corporate KPIs, Benchmarking, NW Business PMO governance, Manage scorecard process	• Standard control • Alternate control • Unregulated services • Water	Direct labour (non-causal)	Reflects the costs of this function being predominantly labour
Network Regulation	Energy Forecasts, Network pricing, RIN coordination, Tariff setting, Tariff analysis & setting Strategy, Reg Strategy, Reg	• Standard control • Unregulated services • Alternate control • Water	• Revenue (causal) • Managerial estimates based on FTE work effort (causal)	Revenue is a good indicator of the time spent on regulatory and compliance issues Management has recorded effort spent on each

Division / Function	Nature	Categories of distribution services	Allocator	Reason for allocation
	Compliance, AER Determination			business segment
Governance, Risk & Compliance	Risk Management plan, Insurance, Fraud & Corruption control plan, Code of Conduct, Compliance Framework & Strategic Compliance Plan, Records Management, Policies/procedures Framework & Management, GRC monitoring, review & reporting.	• Standard control • Alternate control • Unregulated services • Water	• Direct labour (non-causal) • Risk management is based on managerial estimates based on FTE work effort (causal)	Reflects the costs of this function being predominantly labour For risk management, management has recorded effort spent on each business segment
Health, Safety & Environment				
HSE Management Systems & Reporting	Includes implement integrated HSE management system, compliance management and HSE risk identification & monitoring	• Standard control • Alternate control • Unregulated services • Water	• Direct labour (non-causal) • FTEs (non-causal)	Reflects the costs of this function being predominantly labour or driven by FTE numbers
Safety & Environmental Services	Includes providing advice and driving improved performance, incident response, implementation of programs and communications, for company and public safety, and environmental operations.	• Standard control • Alternate control • Unregulated services	• Direct labour (non-causal) • FTEs (non-causal)	Reflects the costs of this function being predominantly labour or driven by FTE numbers
Health & Injury Management	Includes Workers compensation, rehabilitation, development & implementation of health & wellbeing awareness programs.	• Standard control • Alternate control • Unregulated services • Water	• FTEs (non-causal)	Reflects the costs of this function being predominantly driven by FTE numbers
HSE Assurance & Improvements	Includes Investigation management services for safety & environmental incidents, HSE audit program scheduling & implementation	• Standard control • Alternate control • Unregulated services	• Direct labour (non-causal • FTEs (non-causal)	Reflects the costs of this function being predominantly labour or driven by FTE numbers
Information, Communication & Technology				
Governance, Strategy & sourcing	Investment planning, architectural roadmaps, strategy development, program governance and performance, contract performance, service level	• Standard control • Alternate control • Unregulated services • Water	• FTE effort on projects - For the majority of items, management has recorded effort spent on each business	FTE work effort spent on projects for business units is an accurate allocator of these costs

Division / Function	Nature	Categories of distribution services	Allocator	Reason for allocation
	management, budgeting and cost control and reporting, asset management		segment (causal)	
Network Systems	Solution architecture, solution design, program/project management, service delivery & support	• Standard control • Alternate control • Unregulated services • Water	• FTE effort on projects - For the majority of items, management has recorded effort spent on each business segment (causal)	FTE work effort spent on projects for business units is an accurate allocator of these costs
Business & Support Systems	Solution architecture, solution design, program/project management, service delivery & support	• Standard control • Alternate control • Unregulated services • Water	• FTE effort on projects - For the majority of items, management has recorded effort spent on each business segment (causal)	FTE work effort spent on projects for business units is an accurate allocator of these costs
Infrastructure systems	Infrastructure architecture, solution design, program/project management, service delivery and support, operational security	• Standard control • Alternate control • Unregulated services • Water	• FTE effort on projects - For the majority of items, management has recorded effort spent on each business segment (causal)	FTE work effort spent on projects for business units is an accurate allocator of these costs
Service Management	Service desk, incident and problem management, change management, asset management, DR testing	• Standard control • Alternate control • Unregulated services • Water	• FTE effort on projects - For the majority of items, management has recorded effort spent on each business segment (causal)	FTE work effort spent on projects for business units is an accurate allocator of these costs
Network Operations				
Regional Manager Far West	Management expenses	• Standard control • Alternate control • Unregulated services • Water	• Revenue (causal)	Revenue from Water, direct control and alternate control is a good indicator of driver for these costs

Although allocation percentages will change from year to year as a reflection of the change in business activities, the allocation methods themselves are not expected to change. If however, an event such as Essential Energy being divested of the Water Business occurs, this may result in a change on direct spend across departments year on year, and approval for a new CAM may need to be sought from the AER during the 2014-19 period.

5. Responsibility

As discussed in section 4.4 Essential Energy prepares the values of its costs allocators each year. This is prepared by the Regulatory Reporting team, in conjunction with finance, by looking at the attribution of costs and how they relate to standard control, alternative control or unregulated business activities. This process sources information from within the finance system and from the various business functions across the company and is prepared and maintained by the regulatory reporting team in conjunction with finance staff.

Each cost by functional area and project type is assigned the attribute of being either a direct cost or shared cost based on the nature of the costs and according to tables 2 and 4 above. The percentage of shared costs that relate to or are driven by each service type is calculated using actual work activities, statistics, dollars and other determinants sourced from the business, billing system or financial system. These allocation percentages are maintained by the Regulatory Reporting team in an Excel workbook and are also entered in the Apex software package for applying to Opex and Capex reports used to populate the regulatory accounts.

This calculation is done as part of the annual reporting process and the Excel spread sheet is audited for compliance with the CAM. These percentages are input to PeopleSoft system by Finance and used to perform overhead allocations on a monthly basis as described above. Finance staff monitors the allocation of shared costs to direct services and what costs are included in the overhead pool. This ensures that only costs identified as shared costs in this CAM are included as overheads.

Finance manages the financial system, PeopleSoft, and ensures that it gives effect to this cost allocation method. Finance does this by:

- Ensuring that projects and functional areas are appropriately set up to capture costs
- Reflecting the values of the shared cost allocators into PeopleSoft
- Ensuring PeopleSoft allocates the shared cost pool between service categories using the shared cost pool and allocation functionality

The General Manager Finance & Compliance has overall responsibility for:

- The governance and sign-off of the cost allocation method
- Compliance with the cost allocation method

The finance and regulatory reporting team meet regularly to discuss cost allocations.

The following table provides actions and responsibilities with regard to maintaining the CAM as detailed in sections 3.2(a)(3)A and B of the guidelines.

Table 5 - Responsibilities

Department	Position	Responsibility
Various	Business Managers	Provide expert departmental advice and information on functions of their business area
Finance	Financial Accounting Manager	Provide financial statements Apply and monitor allocation of shared costs in PeopleSoft
Regulated Reporting	Group Manager Regulated Pricing and Reporting	Maintaining CAM, calculating percentages annually to be applied to the Financial Statements
Finance & Compliance	General Manager Finance & Compliance	Compliance with the cost allocation method

6. Record Maintenance

Essential 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 for the purposes of clause 3.2(a)(7) of the CAG.

Essential Energy will maintain records of cost attribution and allocation as follows:

- The CAM will be applied to Essential Energy's audited annual statutory financial statements to prepare the annual Regulatory Accounts and assign costs to their relevant services.
- Essential Energy will prepare and maintain appropriate documentation to supports the preparation of the Regulatory Accounts for submission to the AER. These records and working files will be provided to external auditors for the purpose providing an audit opinion on the annual Regulatory Accounts.
- As part of the audit of the Regulatory Accounts, Essential Energy's Chief Executive Officer, Chief Operating Officer, General Manager Finance & Compliance and other senior executives sign a Management Representation Letter, attesting to the auditors that the Regulatory Accounts have been prepared in accordance with the CAM.
- In addition, the Chief Executive Officer will sign a Statutory Declaration attesting that the Regulatory Accounts, to the best of his/her knowledge, is true and accurate in all material respects.
- Essential Energy's records management policy requires financial records to be retained for 7 years. In addition, records of expenditure and cost attribution and allocation are maintained in PeopleSoft and Excel files for at least 7 years.

7. Effective Date

The CAM, once approved by the AER, takes effect on 1 July 2014. In addition, the CAM will be applied for the purposes of developing expenditure forecasts for the regulatory proposals of the transitional regulatory control period and the subsequent regulatory control period.