

Regulatory Requirements Checklist

Essential Energy CAM



Source	Regulatory Requirement	Reference in Essential Energy CAM	Comments
The National Electricity Rules (Chapter 6)			
6.15.2	Cost Allocation Principles		
6.15.2(1)	The detailed principles and policies used by a Distribution Network Service Provider to allocate costs between different categories of distribution services must be described in sufficient detail to enable the AER to replicate reported outcomes through the application of those principles and policies.	Section 5	Section 5.1 contains Essential Energy's principles and policies. Section 5.5 sets out Essential Energy's method for allocating shared costs, including the Direct Cost allocator and how it is calculated. The AER would be able to replicate the outcomes, using Essential Energy's financial statement and the CAM.
6.15.2(2)	The allocation of costs must be determined according to the substance of a transaction or event rather than its legal form.	Section 5.1	Essential Energy confirms that costs are directly attributed, or allocated between, service categories based on the substance of the underlying transaction or event, rather than the legal form
6.15.2(3)(i)	Only the following costs may be allocated to a particular category of distribution services: (i) costs which are directly attributable to the provision of those services;	Section 5.4 - Table 2	Table 2 lists directly attributable costs by function area and identifies the characteristics that make them directly attributable
6.15.2(3)(ii)	Only the following costs may be allocated to a particular category of distribution services: ... (ii) costs which are not directly attributable to the provision of those services but which are incurred in providing those services, in which case such costs must be allocated to the provision of those services using an appropriate allocator which should: (A) except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and (B) to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well accepted cost allocation method.	Section 5.5	Section 5.5. sets out Essential Energy's method for allocating shared costs between service categories and the materiality threshold that is applied
6.15.2(4)	Any cost allocation method which is used, the reasons for using that method and the numeric quantity (if any) of the chosen allocator must be clearly described.	Section 5.5	Section 5.5. sets out Essential Energy's method for allocating shared costs between service categories
6.15.2(5)	The same cost must not be allocated more than once.	Section 5.1	Essential Energy confirms that the same costs are not allocated more than once
6.15.2(6)	The principles, policies and approach used to allocate costs must be consistent with the Distribution Ring-Fencing Guidelines.	Section 5.1	Essential Energy confirms that the CAM is consistent with the Ring-Fencing Guideline
6.15.2(7)	Costs which have been allocated to a particular service cannot be reallocated to another service during the course of a regulatory control period.	Section 5.1	Essential Energy confirms that costs will not be reallocated between services during a regulatory control period
6.15.4	Cost Allocation Method		
6.15.4(a)	Each Distribution Network Service Provider must submit to the AER for its approval a document setting out its proposed Cost Allocation Method: (1) within 12 months after the commencement of these Rules; or (2) in the case of an entity that becomes a Distribution Network Service Provider more than 6 months after the commencement of these Rules, within 6 months of being required to do so by the AER.	Section 2.1	Essential Energy is submitting this CAM to the AER, in accordance with this requirement
6.15.4(b)	The Cost Allocation Method proposed by a Distribution Network Service Provider must give effect to and be consistent with the Cost Allocation Guidelines.	Section 2.2	Essential Energy confirms that the CAM has been prepared in accordance with the CAG
6.15.4(h)	A Distribution Network Service Provider must maintain a current copy of its Cost Allocation Method on its website.	Section 7	Essential Energy confirms the CAM will be published on its website
AER Cost Allocation Guidelines			
Section 1.5	Each DNSP must develop a proposed Cost Allocation Method for submission to the AER in accordance with the requirements of these Guidelines. A DNSP's Cost Allocation Method must give effect to and be consistent with these Guidelines.	Section 2.2	Essential Energy confirms that the CAM has been prepared in accordance with the CAG
Section 2.1	Developing principles and policies		
Section 2.1	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 Cost Allocation Method that the DNSP submits to the AER for approval.	Section 5	Section 5 contains Essential Energy's principles and policies, explanation for how direct costs are attributed and method for allocating shared costs between service categories
Section 2.2 .1	Detailed principles and policies		
Section 2.2.1(a)	A DNSP's detailed principles and policies for attributing costs directly to, or allocating costs between categories of distribution services must be sufficiently detailed to enable: (1) The AER to replicate the reported outcomes through the application of those principles and policies; and (2) The DNSP to demonstrate that it is meeting the requirements of these Guidelines.	Section 5	Section 5.1 contains Essential Energy's principles and policies. Section 5.4 explains how Essential Energy attributes direct costs to service categories. Section 5.5 sets out Essential Energy's method for allocating shared costs, including the chosen allocator and how it is calculated. The AER would be able to replicate the outcomes, using Essential Energy's financial statement and the CAM.
Section 2.2.1(b)	For the avoidance of doubt, section 2.2.1(a) means that a DNSP must include information on the following matters only to the extent necessary to enable the AER to replicate its reported outcomes:	Section 5	Refer detail below
Section 2.2.1(b)(1)	<i>For directly attributable costs:</i>		
Section 2.2.1(b)(1)(A)	The nature of each cost item.	Section 5 - Table 2	Table 2 lists directly attributable costs by function area and sets out the nature of the costs in that function area
Section 2.2.1(b)(1)(B)	The category of distribution services to which the cost item is to be directly attributed.	Section 5 - Table 2	Table 2 identifies which service line each function area's costs will be attributed to
Section 2.2.1(b)(1)(C)	The characteristics of the cost item that associate it uniquely with a particular category of distribution service in order to make it a directly attributable cost.	Section 5 - Table 2	Table 2 identifies the characteristics that associate each function area with the service line it is attributed to

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Section 2.2.1(b)(1)(D)	How and where records will be maintained to enable the basis of attribution to be audited or otherwise verified by a third party, including the AER.	Section 6	Essential Energy confirms that it maintains financial source documentation and records that enable it to demonstrate compliance with the CAM
Section 2.2.1(b)(2)	<i>For shared costs:</i>		
Section 2.2.1(b)(2)(A)	The nature of each cost item.	Appendix 1	Appendix 1 sets out the nature of the costs associated with each function
Section 2.2.1(b)(2)(B)	The categories of distribution services between which each cost item is to be allocated.	Appendix 1	Appendix 1 identifies the categories of distribution services that each function's costs will be allocated to
Section 2.2.1(b)(2)(C)	The nature of the allocator, or allocators, to be used for allocating each cost item.	Section 5.5	Essential Energy's cost allocation method is described in section 5.5, including the assessment process used to identify the allocator and the way it is calculated
Section 2.2.1(b)(2)(D)	The reasons for selecting the allocator, or allocators, for each cost item and an explanation of why it is the most appropriate available allocator, or set of allocators, for the cost item.	Section 5.5	Essential Energy's cost allocation method is described in section 5.5, including the assessment process used to identify the allocator and the way it is calculated
Section 2.2.1(b)(2)(E)	Whether the numeric quantity or percentage of the allocator, or allocators, to be applied for each cost item will: (i) Remain unchanged over the regulatory control period; or (ii) Change from time to time throughout the regulatory control period.	Section 5.5.3	Essential Energy will review the allocators each month and update where necessary to ensure they reflect the most recent financial information
Section 2.2.1(b)(2)(F)	If clause 2.2.1(b)(2)(E)(i) applies: (i) Details of the numeric quantity or percentage of the allocator, or allocators; and (ii) An explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage have been sourced.	N/A	As noted above, the allocators will not remain the same over the regulatory control period
Section 2.2.1(b)(2)(G)	If clause 2.2.1(b)(2)(E)(ii) applies, an explanation of how the DNSP intends to calculate the numeric quantity or percentage throughout the regulatory control period, including where the data for determining the changing numeric quantities or percentages are to be sourced.	Section 5.5.3	The Finance team will review the allocators monthly and update them with the most recent actual financial information in PeopleSoft
Section 2.2.1(b)(2)(H)	How and where records will be maintained to enable the allocation to be audited or otherwise verified by a third party, including the AER.	Section 6	Section 6 identifies the records that will be maintained by Essential Energy and confirms they will adequately demonstrate compliance with the CAM
Section 2.2.2	Substance over legal form		
	(a) A DNSP shall attribute costs directly to, or allocate costs between categories of distribution services based on the substance of the underlying transaction or event. (b) Where the substance and legal form differ, the substance rather than the legal form of a transaction or event shall be used as the basis of cost attribution or allocation. (c) In determining the substance of a transaction or event, all of its aspects and implications shall be considered, including the expectations of and motivations for, the transaction or event. (d) For the purposes of determining the substance of a transaction or event, a group or series of transactions or events that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate.	Section 5.1	Essential Energy confirms that costs are directly attributed, or allocated between, service categories based on the substance of the underlying transaction or event, rather than the legal form
Section 2.2.3	Attribution of direct costs		
Section 2.2.3(a)	In accordance with the requirements of NER clause 6.15.2(3)(i), only costs that are directly attributable to the provision of a particular category of distribution services may be directly attributed to that category of services.	Section 5.4	This section describes Essential Energy's financial management system and the use of projects and functions to directly attribute costs to service categories
Section 2.2.3(b)	A cost may be directly attributable to a DNSP but not directly attributable to a particular category of distribution services provided by the DNSP. In this circumstance, the allocation of costs between categories of distribution services may only be made in accordance with clause 2.2.4 of these Guidelines.	Section 5.5	As described in detail below, Essential Energy has developed a Cost Allocation Method to allocate costs, in accordance with clause 2.2.4 of the CAG
Section 2.2.4	Allocation of shared costs		
Section 2.2.4(a)	In accordance with the requirements of NER clause 6.15.2(3)(ii), shared costs incurred in providing several categories of distribution services must be allocated between those categories using an appropriate causal allocator, except to the extent that: (1) The shared costs are immaterial; or (2) A causal relationship cannot be established without undue cost and effort.	Section 5.5.2	This section sets out the criteria that Essential Energy will apply to determine immaterial costs, which do not require a causal allocator
Section 2.2.4(b)	For the avoidance of doubt, a DNSP must allocate its shared costs: (1) Between the categories of distribution services that it provides; and (2) Within the different types of negotiated distribution services that it provides for the purposes of determining its prices for these services in accordance with clause 6.7.1(1).	Section 5.5	This section sets out Essential Energy's cost allocation method to allocate costs between different distribution service categories. Essential Energy does not have any negotiated distribution services.

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Section 2.2.4(c)	If a shared cost is immaterial or a causal relationship cannot be established without undue cost and effort, then the DNSP may allocate the shared cost to a particular category of distribution services using a non-causal allocator provided that: (1) The non-causal allocator accords with an AER approved Cost Allocation Method; (2) The non-causal basis of allocation is approved in writing by the AER; and (3) The DNSP provides a supporting work paper to the AER documenting for each such shared cost: A. The basis of allocation; B. The reason chosen for that basis; C. A demonstration that the shared cost is immaterial or an explanation of why no causal relationship could be established without undue cost and effort; and D. A numeric quantity or percentage of the non-causal allocator applied to each category of distribution service and in total.	Section 5.5	This section sets out Essential Energy's cost allocation method to allocate costs between different distribution service categories. Essential Energy will provide a supporting working paper to the AER alongside the revised CAM, which will address the requirements set out in section 2.2.4(c) of the CAG.
Section 2.2.4(d)	The bases of non-causal allocation will be subject to review by the AER. The AER expects only to accept a non-causal basis of allocation if the DNSP can demonstrate that there is likely to be a strong positive correlation between the non-causal basis of allocation and the actual cause of the resource or service consumption or utilisation that those shared costs represent.	N/A	Essential Energy will address this in the supporting working paper referred to above
Section 2.2.4(e)	A DNSP is not permitted to allocate shared costs using an avoided cost approach without prior approval by the AER.	N/A	Essential Energy does not use an avoided cost approach
Section 2.2.5	Not allocate the same cost more than once		
Section 2.2.5(a)	A DNSP must not allocate the same cost more than once.	Section 5.1	Essential Energy confirms that the same costs are not allocated more than once
Section 2.2.5(b)	For the avoidance of doubt, clause 2.2.5(a) means that: (1) The same cost may not be treated as both a direct cost and a shared cost; (2) A direct cost may only be attributed once to a single category of distribution services; (3) A shared cost may only be allocated once between categories of distribution services; and (4) A DNSP may only recover the same cost once through the charges that it levies for its distribution services.	Section 5.1	Essential Energy confirms that the same costs are not allocated more than once
Section 2.2.6	Consistency with distribution ring-fencing guidelines The detailed principles, policies and approach that a DNSP uses to attribute costs directly to, or to allocate costs between, categories of distribution services must be consistent with clause 6.17 of the NER.	Section 5.1	Essential Energy confirms that the CAM is consistent with the Ring-Fencing Guideline
Section 2.2.7	Reallocation of costs between categories of distribution services Costs that have been attributed or allocated to distribution services must not be reattributed or reallocated to another service during the course of a regulatory control period.	Section 5.1	Essential Energy confirms that costs will not be reallocated between services during a regulatory control period
Section 3	Preparing and submitting a cost allocation method		
Section 3.1	DNSP to develop proposed cost allocation method		
Section 3.1(a)	Each DNSP must develop a proposed Cost Allocation Method for submission to the AER in accordance with the requirements of these Guidelines.	Section 2.2	Essential Energy confirms that the CAM has been prepared in accordance with the CAG
Section 3.1(b)	The proposed Cost Allocation Method must give effect to, and be consistent with, these Guidelines.	Section 2.2	Essential Energy confirms that the CAM has been prepared in accordance with the CAG
Section 3.2	Format and contents of cost allocation method		
Section 3.2(a)	A DNSP's proposed Cost Allocation Method must include the following information:	N/A	Refer detail below
Section 3.2(a)(1)	A version number.	Version history table	The version history table includes the version number, history of amendments and date of issue.
Section 3.2(a)(2)	The DNSP's commitment to history and date of issue for the document.	Version history table	The version history table includes the version number, history of amendments and date of issue.
Section 3.2(a)(3)	A statement of the nature, scope and purpose of the document and the way in which it is to be used by the DNSP; A. Details of the accountabilities within the DNSP for implementing the Cost Allocation Method; and B. Responsibilities within the DNSP for updating, maintaining and applying the Cost Allocation Method and for internally monitoring and reporting on its application.	Section 3	This section identifies the parties responsible for maintaining the CAM and ensuring Essential Energy's financial management system gives effect to the CAM
Section 3.2(a)(4)	A description of the DNSP's corporate and operational structure in order to enable the AER to understand how the DNSP is organised to provide its distribution services.	Section 4.2	Figure 1 contains Essential Energy's organisational structure and the business functions that sit within each division
Section 3.2(a)(5)	A specification of the categories of distribution services that the DNSP provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided.	Section 4.3	Section 4.3 describes the categories of distribution services that Essential provides that will have cost attributed to them. Section 4.4 provides detail regarding other services that Essential Energy will apply the CAM to.
Section 3.2(a)(6)	The DNSP'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. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.	Section 5	Section 5 contains Essential Energy's principles and policies, explanation for how direct costs are attributed and method for allocating shared costs between service categories. The comments against the requirements of clause 2.2. of the guidelines (set out above) explain how this section meets the requirements.

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Section 3.2(a)(7)	A description of how the DNSP will maintain records of the attribution or allocation of costs to, or between, categories of distribution services in order to enable any such attribution or allocation to be: A. Demonstrated to the AER, in accordance with clause 5.2 of these Guidelines; and B. Audited or otherwise verified by a third party, including the AER, as required.	Section 6	Essential Energy confirms that it maintains financial source documentation and records that enable it to demonstrate compliance with the CAM
Section 3.2(a)(8)	A description of how the DNSP will monitor its compliance with the Cost Allocation Method and these Guidelines.	Section 3	Section 3 identifies that the CFO is responsible for ensuring compliance with the CAM. This section also describes the process for reviewing and updating the CAM.
Section 3.2(a)(9)	Details of the proposed date on which the Cost Allocation Method will commence, having regard for clause 4.1(d) of these Guidelines.	Section 7	Essential Energy proposes that the CAM takes effect on 1 July 2017. The CAM will be used by Essential Energy when developing expenditure forecasts for the 2019-2024 Regulatory Proposal.
Section 3.2(b)	A DNSP must submit its proposed Cost Allocation Method to the AER in both electronic and printed form. Before doing so, a DNSP must ensure that its submission can be transmitted in an electronic format that is compatible with the AER's information systems.	N/A	Essential Energy undertakes to comply with this requirement, when submitting the CAM and supporting documentation (including this compliance checklist) to the AER
Section 3.3	Timing for submission of cost allocation method Subject to the transitional provisions, a DNSP is required under clause 6.15.4(a) to: (a) submit to the AER for its approval a document setting out its proposed Cost Allocation Method: (1) within 12 months after the commencement of the Rules; or (2) in the case of an entity that is not a DNSP more than 6 months after the commencement of the Rules, within 6 months of being required to do so by the AER.	Section 2.1	Essential Energy is submitting this CAM to the AER, in accordance with this requirement
Section 5.4	Publication of cost allocation method In accordance with the requirement of clause 6.15.4(h), a DNSP must maintain a current copy of its approved Cost Allocation Method on its website.	Section 7	Essential Energy confirms the CAM will be published on its website