Attachment 20.7

SA Power Networks: Cost Allocation Method (CAM)

September 2012

Cost allocation method
September 2012

SA Power Networks.

www.sapowernetworks.com.au

Cost allocation method – September 2012

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AMENDMENT RECORD

Version No.	Date of Issue	Pages
1	18 September 2008	Document
2	18 November 2011	Document
3	3 September 2012	Document

Contents

1. Introduction

Corporate Profile

SA Power Networks (formerly ETSA Utilities) is 51 percent owned by Cheung Kong Infrastructure Holdings Limited and Power Assets Holdings Limited (formerly Hongkong Electric), which form part of the Cheung Kong Group of companies. The remaining 49 percent is owned by Spark Infrastructure, which began trading on the Australian Stock Exchange in December 2005.

SA Power Networks operates and maintains the only significant electricity distribution network in South Australia, supplying all of the major population centres, and serves around 825,000 residential, commercial and industrial customers. It constructs, operates and maintains the distribution network from the point of connection with the transmission network (operated by ElectraNet) up to and including the customer's meter.

SA Power Networks employs around 1,800 people, supporting a network comprising 407 zone substations and about 87,000 kilometres of powerlines.

SA Power Networks' key regulated distribution roles include:

- maintaining the safety and reliability of the network,
- meeting the network capacity needs of our customers,
- extending and upgrading the network,
- connecting customers to the network,
- maintaining the public lighting system, and
- acting as the meter data collector (meter reader) and data provider to retailers.

SA Power Networks also provides unregulated construction, maintenance and asset management services in the competitive market.

2. Nature, Scope and Purpose

The purpose of this document is to set out the proposed Cost Allocation Method adopted in SA Power Networks' Regulatory reporting from 1 July 2010. This is pursuant to clause 6.15.4 of the National Electricity Rules (NER), which requires that:

a) Each *Distribution Network Service Provider (DNSP)* must submit to the Australian Electricity Regulator (AER) for its approval, a document setting out its proposed *Cost Allocation Method*.

b) The proposed *Cost Allocation Method* must give effect to, and be consistent with, the *Cost Allocation Guidelines*.

SA Power Networks has a duty to comply with the approved Cost Allocation Method under clause 6.15 of the National Electricity Rules (NER). Clause 6.15.1 of the NER states:

> "A *DNSP* must comply with the *Cost Allocation Method* that has been approved in respect of that provider from time to time by the *AER* under this rule 6.15."

SA Power Networks will apply its *Cost Allocation Method* in preparing:

(1) Forecast operating expenditure to be submitted to the *AER* in accordance with clause 6.5.6 of the NER;

(2) Forecast capital expenditure to be submitted to the *AER* in accordance with clause 6.5.7 of the NER;

(3) Prices for a *negotiated distributed service* determined in accordance with clause 6.7.1 of the NER;

(4) A *certified annual statement* in accordance with a future regulatory information instrument; and

(5) Actual or estimated capital expenditure for the purposes of increasing the value of its regulatory asset base under NER schedule 6.2.1(f).

As required by clause 2.1 of the AER's Cost Allocation Guidelines (CAG), each *DNSP* is responsible for developing the detailed principles and policies for attributing costs to, or allocating costs within, the categories of *distribution services* that it provides. These detailed principles and policies must be included in the proposed *Cost Allocation Method* that SA Power Networks submits to the *AER* for approval.

The approved Cost Allocation Method is to be posted on the SA Power Networks' website as required by clause 6.15.4(h) of the NER.

SA Power Networks' Cost Allocation Method has been prepared in accordance with the *Cost Allocation Principles* contained in section 6.15.2 of the NER. Specifically:

- the principles and policies used by SA Power Networks to allocate costs between the different categories of *distribution services* are contained in this document (NER – 6.15.2(1));
- allocation of costs have been determined according to the substance of a transaction or event rather than its legal form (NER – 6.15.2(2));
- costs allocated to a particular category of *distribution services* are either:
    - costs which are directly attributable to the provision of those services (NER – 6.15.2(3)(i)); or
    - costs not directly attributable are allocated using an appropriate allocator (NER – 6.15.2(3)(ii));
- the reasons for using the method of the chosen allocator is clearly described in this document (NER – 6.15.2(4));
- the same costs are not allocated more than once (NER – 6.15.2(5));
- the principles, policies and approach used to allocate costs are consistent with the *Distribution Ring-Fencing Guidelines* (NER – 6.15.2(6)); and
- costs which have been allocated to a particular service will not be reallocated to another service during the course of a *regulatory control period* (NER – 6.15.2(7)).

The records associated with SA Power Networks' attribution or allocation of costs can be audited or verified by a third party (CAG – 3.2(a)(7)).

3. Responsibility for the Cost Allocation Method

SA Power Networks' Cost Allocation Method is described in this document. We consider that it complies with the requirements of the NER and the Cost Allocation Guidelines, and all regulatory financial information is prepared in a manner that is consistent with it.

Overall responsibility for the Cost Allocation Methodology is with the Chief Financial Officer for SA Power Networks. Responsibility for updating, maintaining and applying the Cost Allocation Method will be undertaken by the Regulatory Accountant. The Regulatory Accountant prepares the annual Regulatory Financial Accounts together with periodic internal reporting on Regulatory outcomes, therefore is best placed both to report on, and ensure compliance with the Cost Allocation Method throughout the organisation. The Regulatory Accountant will work in close collaboration within other groups in SA Power Networks to achieve this.

4. Organisational Structure

SA Power Networks' business is structured to align with our key business strategies. These strategies aim to meet the requirements of our customers and stakeholders and to position us to take advantage of new opportunities.

Operational groups are split along the lines of those providing regulated services and those providing unregulated services. Regulated services are further split structurally between asset management, customer and construction and maintenance activities.

Corporate groups provide services to support the operational groups and to meet the needs of key stakeholders. The organisational structure is described in more detail below:

Distribution Network Services:

- **Network Management**
  Distribution Network Asset Management; Network Operations and Control; Network Reliability and Quality of Supply; Network Planning; Distribution Engineering Standards; Public Lighting; Demand Management.

- **Field Services**
  Construction and Maintenance of Distribution Network Assets; Supply Restoration; Vegetation Management; Logistics and Fleet Maintenance.

Unregulated Services

- **Construction and Maintenance Services (CaMS)**
  Construction, Maintenance and Asset Management for External Customers in the competitive market; Electricity Supplies to Remote Areas; Sale of Materials.

Corporate Groups

- **Office of the CEO**
  Chief Executive Officer; Strategic Planning, Communications; Audit Services; Stakeholder Relations, Risk Management.

- **Customer Relations**
  Customer Response; Revenue Management; Faults and Power Interruptions Reporting; Meter Reading; Customer Appointments; Service Improvement, Connection Services.

- **Company Secretary**
  Corporate Policy, Governance and Compliance.

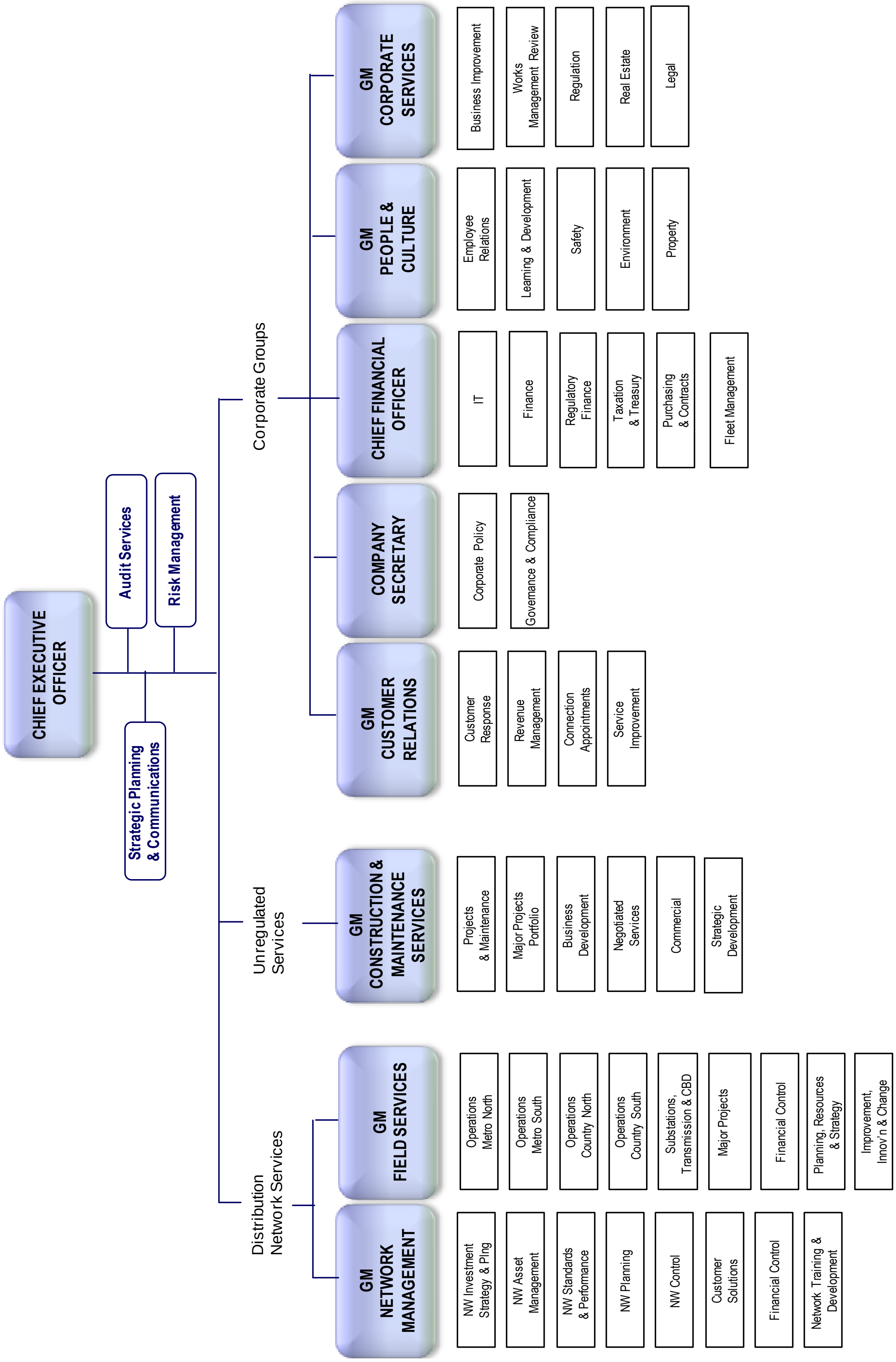
- **Finance**
  Chief Financial Officer; Statutory Reporting; Management Accounting; Regulatory Accounting and Reporting; Financial Planning; Taxation; Treasury; Purchasing and Contracts; Accounts Receivable and Payable; Payroll; Information Technology; Fleet Management.

- **People & Culture**
  Environment and Property Services, Health and Safety; Human Relations; Learning & Development, Training Centre.

- **Corporate Services**
  Regulation; Business Improvement; Legal Services; Real Estate.

These operations are further overseen by the Chairman and Board of Directors. A diagrammatic representation of SA Power Networks' organisational structure is contained in table 1 on the following page.

Table 1: SA Power Networks' Organisation Structure at 3 September 2012



5. Distribution Services

Clause 6.2.1 (a) of the National Electricity Rules stipulates:

The *AER* may classify a *distribution service* to be provided by a *Distribution Network Service Provider* as:

(1) a *direct control service*; or

(2) a *negotiated distribution service*.

Further, clause 6.2.2 (a) of the NER states:

Direct control services are to be further divided into 2 subclasses:

(1) standard control services; and

(2) alternative control services.

The cost allocation principles and policies for SA Power Networks (refer section 6) therefore consider the direct attribution of costs to standard control services, alternative control services, negotiated distribution services and unregulated services. Costs which are not directly attributable to one particular service type (e.g. most corporate overheads) are subject to a shared allocation of costs between standard control services, alternative control services, negotiated distribution services and unregulated services.

Standard Control Services (previously known as prescribed services) include the provision of network capability, maintenance and operation of the distribution system. This includes services such as capacity upgrade, asset refurbishment, supply restoration and vegetation management. These services are provided to all customers (residential and business) connected to the electricity network, for which electricity tariffs apply.

Alternative Control Services (Meters) relate to standard, quarterly meter reading charges and the installation of standard type meters which are not directly funded by the customer.

Negotiated Distribution Services (previously known as excluded services) are network related services that are not covered by electricity tariff revenue. Examples are public lighting, disconnections and reconnections, third party asset damage, asset relocation, non-standard or unwarranted meter installation and non-standard, monthly meter reading. SA Power Networks charges for theses services, which may apply to retailers, government agencies, developers, residential or business customers or individuals who may request non standard applications (e.g. connection upgrade or alteration, relocation, special meter read etc), or who may be held responsible for damage to the electricity network.

Unregulated Services include construction, maintenance and asset management services related to electrical network infrastructure for other entities. These services are provided in an effective competitive environment and are market regulated. They are provided to any agency, business or individual requesting services in a competitive market. SA Power Networks largest recurring customer is ElectraNet, the largest transmitter of electricity in South Australia.

6. Cost Allocation Principles and Policies

6.1 SA Power Networks' Costing Overview

SA Power Networks employs a full absorption methodology for the allocation of costs. This entails allocating all direct and indirect costs to identify the total cost to the organisation of undertaking its work. SA Power Networks' cost collection and reporting is undertaken in SAP, its integrated business management system.

General ledger accounts are used to collect cost inputs, eg labour, materials, services. They are assigned to each cost allocator and provide an input view of costs. General ledger accounts are also used to provide the Statutory and Board reporting for SA Power Networks.

SA Power Networks also assign cost allocations against capital and operating job/work orders in SAP. These capture costs for distinct items of work which, for example, may be job specific or program specific. For major jobs or work programs, projects may be established in SAP as the reporting unit. This may be a collection of job/work orders summarising at a project level, or it may be a distinct unit for reporting. This therefore represents an output view of costs.

Job/work orders are allocated an SA Power Networks' activity when created in SAP. They are allocated to one activity only. Activities also identify work outputs, but at a higher level than job/work orders. Activities are the link to identifying Regulatory costs as they measure the costs of different lines of business for each of SA Power Networks' distribution service types.

In the case of operating expenses, costs consolidate to a profit centre which includes an activity view. A profit centre measures both cost inputs, eg labour and materials, and cost outputs, eg substation maintenance. In the case of capital expenditure, costs ultimately settle to an asset in the balance sheet.

6.2 Directly Attributed Costs

As discussed in section 6.1, SA Power Networks has in place a comprehensive activity structure that defines the lines of work to which each transaction relates. The activity number clearly identifies revenue and cost as relating to standard control services (operating or capital), alternative control services (operating or capital), negotiated distribution services (operating or capital) or unregulated services (operating or capital). Directly attributed costs are discussed in more detail below, with a summary contained in table 2 on page 12.

Labour and Related Expenditure
Labour and related expenditure includes costs associated with SA Power Networks' internal resources, labour contractors and operational vehicles. Costs are allocated to job/work orders by way of standard rates. Labour rates are calculated at a cost centre level and are mostly location based and specific to job types, eg. line workers, electrical mechanics, asset inspectors.

Total labour costs for internal employees are calculated to include normal and overtime salaries and wages, associated payroll on-costs and employee/industry allowances. Payroll on-costs include public holidays, leave, superannuation, and payroll tax. Labour rates for billable (ie non-support) work also recover the non-billable time of employees including attendance at general and safety meetings and down-time to perform administrative duties. They may also include allowance for miscellaneous costs, such as mobile phone charges, clothing, safety equipment, direct supervision and support costs (eg administrative officers). Alternatively these costs may be apportioned across all directly attributed costs as a general business cost (refer below).

An availability charge is also applied to job/work orders relating to emergency supply restoration for allowances paid to workers rostered outside of normal working hours for the purpose of responding to faults, extreme weather events and other network emergencies. Total labour costs are divided by total available hours to arrive at an average labour rate.

External labour contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. Contractor costs are incorporated into labour rates for allocation to job/work orders.

Operational vehicles, ie heavy fleet, are managed by the Fleet group and allocated to work groups. An average hourly rate per vehicle class is calculated to incorporate the total operating cost of vehicles including fuel, registration, maintenance and repairs, and divided by the expected productive hours of utilisation. Note that operating costs associated with light fleet (ie passenger vehicles) are incorporated in general business costs.

Labour and related costs are charged at standard rates directly to job/work orders by way of employee (including labour contractor) timesheets being entered into SAP. They are calculated for the following year as part of the annual budget cycle.

Materials

Materials are directly allocated to job/work orders at cost. They include stock items distributed through SA Power Networks' centralised warehouse and specific purchases of irregular or low turnover items such as specialised transformers, plant and equipment, and computer hardware. An on-cost is added to stock materials to cover the cost of warehousing and delivery of materials held in the central store. This is in the form of a percentage applied to the direct cost of material (calculated as the budgeted cost of material on-costs over the value of materials distributed). Different rates apply for different material types depending upon value and turnover; rates for the following year are calculated as part of the annual budget cycle.

Services

Services costs, relating to services provided by external parties (excluding labour contractors described above), are treated similarly to materials in that they are directly allocated to job/work orders at cost. They include the distribution licence fee, provision of civil works, earthmoving and tree cutting services, externally provided asset construction and maintenance services, travel and accommodation, training services, insurance premiums and rates and taxes. Consultancies for agreed deliverables are similarly categorised as services.

Costs associated with the management and support of operational business units, as well as the operating costs of light fleet, are distributed across all directly attributed costs. Miscellaneous costs such as mobile phones and clothing costs may also be distributed (where not included in labour rates). This is in the form of a percentage applied to the direct costs, which comprise labour and related expenditure, materials and services of a job/work order (calculated as budgeted total management and support costs over total direct costs). Different rates are applied for each operational business unit, rates for the following year are calculated as part of the annual budget cycle.

A summary of directly attributable costs is contained in table 2 on the following page. A list of regulated services that SA Power Networks reports against, for which costs are directly attributed, is contained in table 3 on pages 13 and 14.

Table 2: Allocation of Directly Attributed Costs

Costs are allocated to standard control services, alternative control services, negotiated distribution services or unregulated services on the basis shown below:

Cost	Description	Basis of allocation (driver)
Labour and related costs	Includes the following: ▪ Normal and overtime salaries and wages, associated payroll on-costs and employee/industry allowances ▪ Supplementary labour support from external providers ▪ Heavy fleet operating costs including fuel, registration, and maintenance and repairs	Standard rates specific to location and job type, directly allocated by employee timesheet to job/work order
Materials	Stock items or purchases of irregular or low turnover items (eg specialised transformers)	Directly allocated to job/work order. Stock materials incur a percentage oncost for purchasing, warehousing and delivery costs
Services	Provision of services by external parties (eg distribution licence fee, civil works, consultancies, travel and accommodation, training services, insurance, rates and taxes etc)	Directly allocated to job/work order

Costs associated with the management and support of operational business units are distributed across all directly attributed costs.

Table 3: Directly Attributed Regulated Services

Listed below are SA Power Networks' standard control, alternative control and negotiated distribution services for which costs are directly attributed, consistent with activities identified in SA Power Networks' 2010-15 Regulatory Submission:

Operations and Maintenance

Network Operating Costs
- Distribution Licence Fee
- Network Access, Monitoring and Control
- Network Access Management
- Network Asset Systems and Information
- Network Telephony
- Regulatory Compliance

Network Maintenance Costs
- Inspections
- Maintenance and Repair
- Substation Property Maintenance
- Vegetation Management
- Emergency Response
- Demand Management
- Demand Management Innovation Fund
- Guaranteed Service Level Payments
- Network Insurance
- Public Lighting Maintenance

Customer Service Costs
- Meter Reading
- Special Meter Reading
- Call Centre
- Full Retail Contestability
- Disconnections and Reconnections

Other Directly Attributed Costs
- Feed-in Tariffs
- Property – DLC Land Tax
- Accounts Receivable Asset Damage
- Taxation Consultants
- Apprentice Training
- Debt Raising Costs

Feed-in tariff payments are reported based on cash paid or due to be paid to customers, based on energy usage to date. This is consistent with the treatment of revenue from electricity usage. Accounting adjustments for the recognition of a receivable for payments in excess of the feed-in tariff allowance are reversed for regulatory reporting.

Capital (by Purpose)

Network – Demand Driven
Capacity – reinforcements and Upgrades
Customer Connections
Customer Connections – Meters

Network - Quality, Reliability and Security of Supply
Asset Replacement and Refurbishment
Security of Supply
Reliability
Property – Substation Land
Easements
Strategic and Other

Network – Safety and Environment
Safety
Environmental
PLEC (Undergrounding)

Non-Network Expenditure
Information Technology
Property – Land
Property - Buildings
Heavy Vehicle Fleet
Light Vehicle Fleet
Plant and Tools
Other

6.3 Allocated Costs

Corporate costs relate to the organisational groups supporting the operational functions of SA Power Networks. Examples of SA Power Networks' corporate support groups are Finance, Information Technology, Employee Relations, OH&S and Property Services.

The Customer Services group relates to regulated (i.e. distribution network) customer management including customer response, retailer billing and customer business improvements, customer connection and retailer requests. Costs (excluding call centre which are directly attributed) are allocated as corporate costs.

SA Power Networks does not charge corporate costs directly to job/work orders for regulatory purposes. Rather the operating costs incurred by each group are allocated between standard control services, negotiated distribution services and unregulated services based on the type of service provided.

Alternative control services represent the provision of standard metering services by SA Power Networks. Shared costs are to be allocated against this service type as appropriate[1].

For many corporate allocations there is a clear causal basis for allocation. For example employee relations and learning & development costs are allocated on the basis of the number of employees. For some services however there is no clear causal allocator and costs are allocated on the basis of total revenue or a weighted average of causal allocators. The method for allocation of each corporate cost is described in table 4 on the following page. An example of the weighted average of causal factors is shown at the end of the table.

It should be noted that SA Power Networks allocates superannuation and self insurance costs on a cash, rather than accrual, accounting basis to ensure consistency with how regulatory allowances are determined. An adjustment is made for the difference between actual cash paid and the amount expensed in the Financial Accounts, which is allocated on a basis consistent with the expensed costs.

From a Regulatory Accounting perspective, all corporate costs are treated as an operating expense.

[1] Note that in the 2010/11 regulatory year reporting, that shared costs are not allocated to alternative control services. These costs are not considered material and will not impact on the presentation of underlying results for that year.

Table 4: Allocated Costs

Corporate costs are allocated to standard control services, negotiated distribution services or unregulated services on the basis shown below. In circumstances where a causal allocation basis can be established, costs are allocated on a causation basis. Where this is not the case, costs are allocated on a non-causal basis with care and consideration given to ensure that the allocation method chosen best reflects the use of the relevant services:

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Office of the CEO				
CEO	NC	The office of the Chief Executive Officer	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators.
Strategic Planning	NC	Management of annual strategic planning process	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of total revenue for each service class.
Communications	C	Corporate communications (including advertising and marketing) and stakeholder management	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. Any advertising or marketing for the unregulated business is borne directly by the CaMS group. Communication costs are allocated between standard control, alternative control and negotiated distribution costs based on regulated revenue.
Audit Services	C	Independent review of business strategies, systems and processes	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated between distribution and unregulated services based on audit days proposed in the annual Audit Plan. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution costs based on total regulated costs.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Office of the CEO (continued)				
Risk & Insurance – Shared Insurance Premiums	C	Insurance premiums to cover general risks including: • Fidelity guarantee • Employment practices • Depots/Offices • Combined Liability (eg products, professional indemnity) • Contract works • Computer • Marine transit	• Standard control • Alternative control • Negotiated distribution • Unregulated	Total risk and insurance costs (excluding support costs) are allocated between network insurance and shared insurance premiums based on the type of insurance. Network insurance costs (eg bushfire risk liability) are directly attributed to standard control services as a cost of operating the electricity distribution network. Shared insurance premiums are allocated dependent on type of insurance eg fidelity guarantee, employment practices, depots/offices, combined liability allocated on basis of FTEs; contract works allocated on basis of revenue; computer based on IT allocations, marine transit based on stock materials.
Risk & Insurance – Support Costs	NC	Risk and Insurance support costs including: • Self insurance costs • Brokers fees • Management and administration costs	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of the weighted average of total policy allocations.
Company Secretary				
Company Secretary	NC	Services to the SA Power Networks' Board, governance and compliance	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Finance				
CFO	NC	Office of the Chief Financial Officer	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the Finance group.
Corporate Finance	NC	Taxation, excluding consulting costs directly attributed to standard control services and activities and treasury services, reporting to key internal and external stakeholders, budget process management and accounts receivable, excluding that associated with the identification, invoicing and collection of third party damage to SA Power Networks' assets (which is directly attributed to standard control services as a cost of operating the electricity distribution network).	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of total revenue for each service class.
Operational Finance	C	Management reporting, budgeting, financial control of operational groups	• Standard control • Alternative control • Negotiated distribution • Unregulated	Costs are allocated for services provided. Network Management and Field Services costs are allocated to standard control, alternative control and negotiated distribution services based on regulated revenue splits. CaMS costs are allocated to unregulated services.
Regulatory Finance	C	Financial regulatory matters, including preparation of the Regulatory Accounts	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. Costs are allocated between standard control, alternative control and negotiated distribution costs based on total regulated revenue.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Finance (continued)				
Accounts Payable	C	Payment of vendor invoices	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated on basis of Accounts Payable source data for creditor transaction volumes.
Payroll	C	Costs associated with payment of salaries and wages to employees, including system updating	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.
Purchasing and Contracts	C	Procurement contract establishment and contract management	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated on the basis of stock material and service contract costs.
Information Technology	C	Provision, maintenance and support of IT systems and services, and development of new IT systems and services	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated between distribution and unregulated services on basis of IT systems and FTE usage data. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis on regulated labour hours.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Corporate Services				
General Manager Corporate Services, including Business Improvement	NC	Management of the Corporate Services group, including identification of opportunities for improvement across the business	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the Corporate Services' group.
Regulation (Excluding Licence Fee)	C	Compliance with Regulatory codes and guidelines (excluding the licence fee, which is directly attributed to standard control services)	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. Costs are allocated between standard control, alternative control and negotiated distribution costs based on total regulated costs.
Real Estate – Offices and Depots	C	Real estate management services, including rates and taxes, property acquisition and disposal, property lease and easement management.	• Standard control • Alternative control • Negotiated distribution • Unregulated	Distribution Lessor Corporation (DLC) land tax relates to distribution assets acquired (by lease) on privatisation. These costs are directly attributed to standard control services as a cost of operating the electricity distribution network. The remainder of Real Estate costs are allocated between substations and depots based on property rates. Substation costs are directly attributed to standard control services as a cost of operating the electricity distribution network. Office and depot costs are allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Corporate Services (continued)				
Legal Services	C	Legal counsel, legal compliance	• Standard control • Alternative control • Negotiated distribution • Unregulated	Labour costs associated with an officer dedicated to the CaMS business are allocated to unregulated services. Remainder of costs are allocated to standard control, alternative control and negotiated distribution services based on total regulated costs.
People and Culture				
General Manager People and Culture	NC	Management of the People and Culture group	• Standard control • Alternative control • Negotiated distribution • Unregulated	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the People and Culture group.
Human Resources	C	Employee relations, including personnel issues and industrial relations, and workforce learning and development (excluding training)	• Standard control • Alternative control • Negotiated distribution • Unregulated	Costs allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis on regulated labour hours.
Training Centre	C	Costs associated with the operation of the in-house centre for distribution network training, including curriculum, training materials etc, excluding apprentice training costs which are directly attributed to standard control services as a cost of operating the electricity distribution network. Apprentices are not used anywhere else in the business.	• Standard control • Alternative control • Negotiated distribution	Costs, excluding apprenticeship costs and training centre management (see below), are allocated to the regulated business only between standard control, alternative control and negotiated distribution services on basis on regulated labour hours. Any specific training for the CaMS group will be charged direct to the group.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
People and Culture (continued)				
Training Centre Management	NC	Costs associated with management of the in-house training centre	• Standard control • Alternative control • Negotiated distribution	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the training centre.
OHS	C	Health and safety management	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. CaMS have dedicated OHS personnel as part of their group structure to support the unregulated business. Costs are allocated between standard control, alternative control and negotiated distribution costs based on regulated labour hours.
Environment	C	Environment management	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. CaMS have a dedicated environmental officer as part of their group structure to support the unregulated business. Costs are allocated between standard control, alternative control and negotiated distribution costs based on regulated labour hours.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
People and Culture (continued)				
Property – Offices and Depots	C	Property management, including maintenance and alterations and additions associated with offices and depots	• Standard control • Alternative control • Negotiated distribution • Unregulated	Total property costs are allocated between substations and depots based on property rates. Substation property costs are directly attributed to standard control services as a cost of operating the electricity distribution network. Office and depot costs are allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.
Printing	C	Printing services costs not directly attributed to a business function.	• Standard control • Alternative control • Negotiated distribution • Unregulated	Most costs are transfer priced to a business function. Remainder of costs are allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Customer Relations				
General Manager Customer Relations	NC	Management of the Customer Relations' group	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. Costs are allocated between standard control, alternative control and negotiated distribution on the basis of the weighted average of all allocators for the Customer Relations group.
Customer Response, excluding Call Centre	C	Costs related to customer enquiries (excluding the call centre, which is directly attributed to standard control services including: • Investigations • Ombudsman enquiries • Reliability payments	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. Costs are allocated between standard control, alternative control and negotiated distribution on the basis of regulated revenue.
Service Improvement	C	Relates to customer billing system and process improvements to deliver better service to customers	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. Costs are allocated between standard control, alternative control and negotiated distribution on the basis of regulated revenue.
Connection Services	C	Management of retailer generated work requests and coordinating customer requests for new or upgraded connections	• Standard control • Alternative control • Negotiated distribution	Services provided support the regulated business only. Costs are allocated between standard control, alternative control and negotiated distribution on the basis of regulated revenue.

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Other				
Employee Bonuses	C	Bonus payments made to employees for surpassing specified targets, including financial, safety and customer service	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.
Voluntary Separation Packages (VSP's)	C	Incentive payments to employees to leave the organisation	• Standard control • Alternative control • Negotiated distribution • Unregulated	Actual costs will be assigned to group that employee is based. Costs will be further allocated based on the relevant services or allocator for that group.
Self Insurance Adjustment	C	Self insurance costs are allocated on a cash, rather than accrual, accounting basis, consistent with the manner in which submissions were made and allowances were determined in the price determination. This adjustment reflects the difference between the cash paid and the amount expensed in the Financial Accounts.	• Standard control • Alternative control • Negotiated distribution • Unregulated	Costs allocated across each business segment on the basis of total policy allocations.
Superannuation Adjustment	C	Superannuation costs are allocated on a cash, rather than accrual, accounting basis, consistent with the manner in which submissions were made and allowances were determined in the price determination. This adjustment reflects the difference between the cash paid and the amount expensed in the Financial Accounts.	• Standard control • Alternative control • Negotiated distribution • Unregulated	Costs allocated across each capital and operating business segment on the basis of labour hours for each division of employee entitlements.

C = Causal, NC = Non-Causal

An example of a weighted average of causal factors is contained below for the Chief Financial Officer as part of the Finance group. Allocations are based on 2011 budget data; allocations to alternative control services are illustrative only.

Allocations for CEO, Company Secretary, GM Corporate Services, GM People and Culture, GM Customer Relations, Training Centre Management and Risk and Insurance Support Costs will be calculated on the same basis.

Table 5: Example of a Weighted Average of Causal Factors – CFO

Finance Department (excluding CFO)	Causal Allocator	Standard Control		Alternative Control		Negotiated Distribution		Unregulated		Total
		$'000	%	$'000	%	$'000	%	$'000	%	$'000
Corporate Finance	Total Revenue	1,227	69%	18	1%	322	18%	210	12%	1,776
Operational Finance - Network Management, Field Services	Regulated Revenue	863	78%	13	1%	227	21%	0	0%	1,103
Operational Finance - CaMS	Unregulated	0	0%	0	0%	0	0%	625	100%	625
Regulatory Finance	Regulated Revenue	477	78%	7	1%	125	21%	0	0%	609
Accounts Payable	Creditor Transaction Volumes	287	78%	4	1%	22	6%	55	15%	369
Payroll	FTE Splits	288	85%	0	0%	17	5%	33	10%	339
Purchasing and Contracts	Stock Material & Service Contract costs	2,060	66%	157	5%	362	12%	563	18%	3,142
Taxation & Treasury	Total Revenue	327	69%	5	1%	86	18%	56	12%	474
Directly Attributed*	Standard Control only	650	100%	0	0%	0	0%	0	0%	650
Information Technology	IT Systems & FTE Usage	9,960	85%	117	1%	597	5%	1,056	9%	11,729
Total Finance (excl CFO)		**16,139**	**78%**	**322**	**2%**	**1,757**	**8%**	**2,598**	**12%**	**20,816**
CFO Costs	Weighted Average of Finance Allocators	366	78%	7	2%	40	8%	59	12%	472
Total Finance (incl CFO)		**16,505**	**79%**	**329**	**2%**	**1,797**	**9%**	**2,657**	**13%**	**20,958**

* includes accounts receivable for asset damage and taxation consulting costs, directly attributed to standard control services as a cost of operating the electricity distribution network.

6.4 Balance Sheet Disaggregation

Revenues and expenses are allocated between standard control, alternative control, negotiated distribution and unregulated services by activity as outlined above. Capital (asset) and operation and maintenance services are directly attributed in this manner. Financing costs and taxation expenses are not allocated.

From a balance sheet perspective, with the exception of property, plant and equipment, SA Power Networks allocates working capital items only as these can be related to the type of service provided. This includes receivables, inventory, trade payables and provisions.

As stated in section 6.2, capital expenditure is directly attributed and does not include corporate costs. A separate asset register is maintained of property, plant and equipment for regulatory account purposes, which is reconciled to SA Power Networks' financial accounts.

A summary of allocators applied to working capital items is contained in table 6 below.

Table 6: Working Capital Allocations

Working capital items in the Balance Sheet are allocated to standard control services, alternative control, negotiated distribution services or unregulated services as shown below:

Cost	Causal/ Non-Causal	Service(s) allocated to	Basis of allocation (driver)
Electricity (Retailer) Receivables	Causal	• Standard control • Alternative control	Relate to standard control and alternative control services only. Separate general ledger accounts are established for electricity receivables, but are allocated between standard control and alternative control services on the basis of distribution revenue.
Non-Electricity Receivables	Causal	• Negotiated distribution • Unregulated	Allocated on basis of non-electricity revenue.
Inventory	Causal	• Standard control • Negotiated distribution	Stock materials are held principally to meet the requirements of the regulated business. Public lighting specific inventory is allocated to negotiated distribution services, with the remainder allocated to standard control services.
Prepayments	Causal	• Standard control • Alternative control • Negotiated distribution • Unregulated	Prepayments are allocated based on the nature of the prepaid expense. For example, prepaid insurance premiums are allocated on the basis of insurance premiums, regulatory licence fees are allocated to distribution services on the basis of regulated revenue.

Creditors	Causal	• Standard control • Alternative control • Negotiated distribution • Unregulated	Creditors and accruals are allocated on the basis of total operating and capital expenditure.
Unearned Income	Causal	• Negotiated distribution • Unregulated	Unearned income relates to prepaid non-electricity invoices only, allocated on basis of total non-electricity revenue.
Leave Provisions	Causal	• Standard control • Alternative control • Negotiated distribution • Unregulated	Annual and long service leave provisions are allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.
Employee Bonus Provision	Causal	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.
Provision for Site Restoration	Causal	• Standard control	Directly allocated to standard control services as site restoration relates to distribution network sites (eg substations).
Provision for Workers Compensation	Causal	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.
Provision for Self Insurance	Causal	• Standard control	Directly allocated to standard control services as relates predominately to claims for non-supply, power surges etc.
Payroll and Payroll Tax Control	Causal	• Standard control • Alternative control • Negotiated distribution • Unregulated	Allocated between distribution and unregulated services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control and negotiated distribution services on basis of regulated labour hours.
Transmission Rebates	Causal	• Standard control • Alternative control	Split on the basis of electricity revenue.

6.5 Related Party Costs

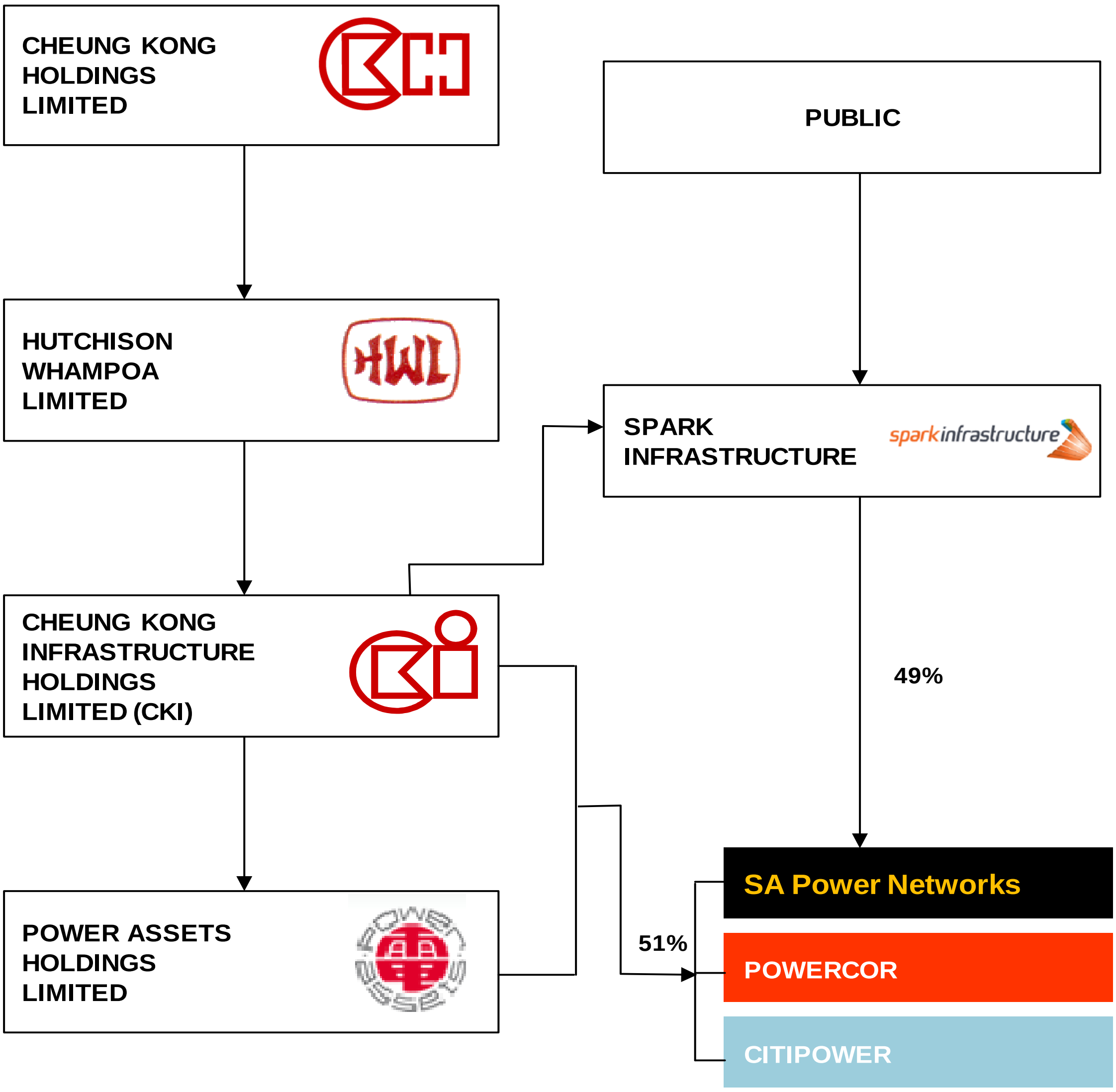
SA Power Networks shares common ownership with Victorian DNSPs, Powercor and CitiPower. SA Power Networks has a separate Board and is operated as a totally separate entity to the Victorian DNSPs. Any services provided between the groups are at arms length and service level agreements are established between the entities.

SA Power Networks also has a relationship with Hutchison Telecoms through its ownership structure. Again all transactions with Hutchison are at arms length.

All related party transactions undertaken by SA Power Networks are contained in its audited Statutory and Regulatory Accounts. Costs and revenues are directly attributed as for other transactions provided by external parties.

A diagrammatic representation of SA Power Networks' ownership structure, showing related parties, can be found below.

Table 7: SA Power Networks' Ownership Structure at 3 September 2012



7. Record Maintenance

As described in section 6, SA Power Networks derives costs through its mainframe integrated business information system.

SA Power Networks' audited Statutory financial accounts (annual and half-year) form the foundation for overall costs from which its Regulatory Accounts are assigned to the relevant services.

Full documentation is maintained in preparation of the annual Regulatory Information Notice (RIN). Supporting cost reports are generated and working files prepared, including cost allocations containing bases as well as numeric and percentage values consistent with the approved Cost Allocation Method.

All reports and files are made available to the external auditors for the purpose of expressing an opinion that the Regulatory Financial Report is presented fairly in accordance with this Cost Allocation Methodology and the AER RIN. As part of this process, SA Power Networks' Chief Executive Officer and Chief Financial Officer sign a Management Representation Letter, attesting to the auditors that the accounts have been prepared in accordance with these documents.

The Chief Executive Officer will also sign a Statutory Declaration attesting that the Regulatory Financial Report, to the best of his/her knowledge, is true and accurate in all material respects.

8. Compliance with Cost Allocation Method and Guidelines

The Regulatory Accountant in SA Power Networks is responsible for preparing annual Regulatory Accounts in accordance with the approved Cost Allocation Method and the AER Cost Allocation Guidelines. Compliance is endorsed by management and reviewed by independent auditors.

9. Effective Date

SA Power Networks will report in accordance with this current Cost Allocation Method with respect to all reporting following approval by the AER.