

# **SP AusNet Electricity Distribution Cost Allocation Method**

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## **Appendix 6H**

**December 2010**

**Version 1**

# Version History

| Version No. | Issue Date       | Details of Amendment    |
|-------------|------------------|-------------------------|
| 1           | 17 December 2010 | Approved Public Version |
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# **1 Introduction**

The National Electricity Rules (NER) requires Distribution Network Service Providers (DNSPs) to develop and submit a proposed Cost Allocation Method (CAM) to the Australian Energy Regulator (AER) for approval.

Under clause 11.17.5 of the NER, the proposed CAM must be submitted at least 13 months before the expiry of a distribution determination that applies to the DNSP (i.e. by 30 November 2009 for SPI Electricity Pty Ltd, part of the SP AusNet Stapled Group (SP AusNet)).

This document sets out the method used by SP AusNet for the attribution of direct costs and the allocation of shared costs to, and between, its categories of electricity distribution services. The method has been developed in accordance with the requirements of the NER and the AER's Cost Allocation Guidelines for Victorian Electricity DNSPs (the Guidelines), dated 26 June 2008.

The NER allows SP AusNet to amend its approved CAM, subject to the requirements contained in Clause 4.2 of the Guidelines.

The service classifications presented in section 3.3 of this CAM are consistent with the service classifications in the AER's final decision for the 2011-15 distribution determination to apply to SP AusNet.

The AER will review the CAM as part of each future price determination for SP AusNet.

## 2 Overview, Application and Maintenance of the Cost Allocation Method

### 2.1 Nature, Scope and Purpose

SP AusNet's CAM documents the principles, policies and approach for attributing direct costs to, and allocating shared costs between the categories of electricity distribution services that it provides, as required under clause 2.1 of the AER's Guidelines.

The CAM supports the purpose of the AER's Guidelines (the Guidelines) by promoting the principles of effective cost allocation, which in turn supports the national electricity objective by:

- ensuring that only efficient costs are allocated to different services;
- ensuring that prices paid by end customers for these services are not inappropriately inflated or discounted; and
- promoting transparency in information provided to the AER, and in the decisions made by the AER.

In accordance with clause 11.17.5 (a) of the NER, SP AusNet's proposed CAM must be submitted to the AER for approval, together with the building block proposal. Once approved by the AER, the CAM must be used for the purposes of allocating costs in accordance with clause 6.15.1 of chapter 6 of the NER.

The CAM will be used in the preparation of capital and operating expenditure forecasts for building block proposals and for annual regulatory financial reporting obligations (regulatory accounts). In accordance with clause 5.1 (b) of the Guidelines, SP AusNet will apply its CAM 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 distribution service determined in accordance with clause 6.7.1 of the NER;
- 4) annual statements 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).

The document also provides guidance for SP AusNet management and staff in relation to cost allocation principles, policy and ongoing obligations as they relate to the operations and delivery of distribution services. The electricity distribution services provided by SP AusNet, the nature of costs associated with those services and the methodology for attributing and allocating these costs is set out in sections 3, 4 and 5.

In recent years, SP AusNet has undertaken a range of business structure and process review projects associated with bringing together its Transmission and Distribution businesses. While the cost allocation methodology described in this document reflects the arrangements currently in place, SP AusNet is committed to the ongoing review and enhancement of all processes, procedures, systems and tools associated with this critical element of its business performance.

SP AusNet recognises its obligations and the process, under the NER, for seeking any future amendments to its CAM once approved by the AER. Should circumstances change materially, either from a quantitative or qualitative perspective (e.g. due to significant corporate or structural changes), then SP AusNet will approach the AER to amend its CAM. A change in circumstances will be deemed to be material if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position of SP AusNet’s electricity distribution business, gained by an assessment of financial information relating to SP AusNet’s electricity distribution business.

## 2.2 Accountabilities and Responsibilities

Clause 3.2(a)(3) of the Guidelines requires SP AusNet to include, within the CAM document, details of the accountabilities for the document and responsibilities for updating, maintaining, applying and monitoring the application of the CAM.

The following table sets out these accountabilities and responsibilities:

|  | <b>Accountability and/or Responsibility</b>  |
|--|--|
| Group Finance Manager                                | <ul style="list-style-type: none"> <li>• Implement the CAM and maintain associated costing procedures and guidelines for staff</li> <li>• Update and maintain the CAM as required</li> </ul>   |
| Regulatory Accounting & Analysis Team, Group Finance | <ul style="list-style-type: none"> <li>• Apply the CAM in the preparation of all financial information, including reporting of actual results and development of forecasts</li> <li>• Provide advice, education and support to staff in regard to the requirements of the CAM</li> </ul>   |
| Director, Regulation & Network Strategy              | <ul style="list-style-type: none"> <li>• Provide advice on design, implementation and ongoing compliance obligations for the CAM</li> <li>• Monitor and advise the Regulatory Accounting Team of relevant changes to the NER, Cost Allocation Guideline or any other regulatory developments that may impact on the CAM</li> </ul> |
| Operational Managers                                 | <ul style="list-style-type: none"> <li>• Comply with the CAM and support its application within relevant area of responsibility</li> </ul>   |
| All Staff  | <ul style="list-style-type: none"> <li>• Comply with all relevant costing procedures and guidelines issued by Group Finance to ensure that SP AusNet complies with the approved CAM</li> </ul>   |
| Internal Audit                                       | <ul style="list-style-type: none"> <li>• Monitor compliance with the requirements of the CAM and report to the SP AusNet Audit &amp; Risk Management Committee (ARMC)</li> <li>• Recommend improvements to the CAM as identified</li> </ul>  |

While significant responsibility lies with the Group Finance team for the application of the CAM, all SP AusNet management and staff share responsibility for compliance and for the provision of accurate costing inputs and information (e.g. timesheets, activity based costing surveys) used within the cost allocation process.

### **2.3 Compliance Monitoring**

Associated with the preparation of annual regulatory financial information, SP AusNet engages independent auditors to audit the statutory financial statements (base accounts), internal controls and the regulatory accounts, derived from the application of the CAM.

SP AusNet will further monitor its compliance with the CAM and the AER's Guidelines through the following:

- in processing and approving costing entries, Group Finance staff review the coding of costs;
- the annual review of templates, documentation and work papers by the Regulatory Accounting and Regulation & Network Strategy teams during the preparation of regulatory accounting statements;
- cost allocation models and management activity based costing surveys are subject to review by Group Finance on a quarterly basis and external audit scrutiny every 6 months during the preparation and audit of half-year and annual financial statements and the annual regulatory accounting statements;
- direct cost attributions, overhead capitalisation and the allocation of shared costs are subject to Internal Audit review, on a cyclical basis, within the approved annual Internal Audit Plan;
- the ARMC formally consider and endorse the preparation process and associated due diligence framework each year, prior to the submission of the Regulatory Accounting Statements to the subsidiary Board of Directors for approval;
- related party transactions are subject to review by group finance staff, scrutiny from internal and external auditors, oversight by the ARMC and sign-off by the Directors within regulatory submissions to ensure adherence to approved service agreements and arrangements (e.g. only actual employee costs are allocated to SP AusNet from SPI Management Services Pty Ltd (SPIMS)) and compliance with regulatory obligations in regard to the charging of actual costs only to regulated distribution services;
- the Directors will make such enquiries as may be necessary to allow them to sign the Responsibility Statements for regulatory financial information submitted to the AER;
- SP AusNet's Regulatory Compliance Database will be used to systematically schedule key CAM activities, assign responsibility for their completion, monitor progress and formally report their completion; and
- where required by the AER, financial information prepared under the CAM shall be subject to independent audit.

Clause 2.2.8 (b) of the Guidelines requires that the CAM must allow for effective comparison of historical and forecast cost allocation between the period to which the ESC distribution pricing determination applies and later regulatory control periods.

SP AusNet ensures consistency and the integrity of the Activity Based Costing (ABC) process and outcomes by:

- distributing the previous quarter's completed survey and survey instructions to managers each quarter to assist them in completing their current survey;
- the Regulatory Accounting Team reviewing and following up compliance with the process and that any material allocation movements between quarters, identified in survey returns, are appropriately explained by the relevant manager, or corrected if errors are detected;
- undertaking an external audit review of the ABC survey data as part of annual regulatory audits, including following up material movements identified in cost centre survey allocations;
- ensuring cost allocation outcomes are subject to external audit review and sign-off for half-year and full-year statutory accounts, and Distribution and Transmission Regulatory Accounts, subject to 4 independent audit reviews per year;
- ensuring signed Management Representations as requested by external auditors including representations relating to ABC surveys and regulatory cost allocations are provided;
- requiring directors' approval of the Regulatory Accounting statements; and
- ensuring regulatory cost allocation outcomes are transparently reflected in regulatory accounts submitted to the AER.

## **2.4 Records Maintenance**

### ***Accounting Records & Working Papers***

SP AusNet records its costs in accordance with all applicable accounting standards and Corporations Act 2001. Detailed cost reports (general ledger, project based, and activity based) are generated from the integrated financial and asset management systems, which include Oracle, Maximo and supporting analytical spreadsheet packages.

Records and work papers include:

- source invoices, vouchers, management costing surveys, general ledger reports, trial balances, transaction listings; and
- cost allocation model, allocators and working papers, supporting the attribution or allocation of costs to, or between, categories of distribution services.

### ***Audit or Verification by Third Party***

All financial reports, files and work papers are made available to the audit teams. The annual internal and external audit programs, reviewed and approved by the ARMC, ensure that all accounting records are subject to appropriate audit scrutiny before they are submitted to relevant authorities. Covering audit opinions are included with all submitted statutory and regulatory accounts. All submissions are prepared in accordance with the necessary accounting, legislative and regulatory standards and guidelines, and audit opinions report on compliance.

SP AusNet's cost allocation models and management activity based costing surveys are subject to independent audit review and scrutiny every 6 months during the preparation and audit of half-year and annual financial statements, and the annual regulatory accounting statements.

### ***Record retention***

In accordance with clause 3.2(a) (7) of the Guidelines, SP AusNet will maintain the above mentioned records in order to demonstrate compliance with the guideline and to facilitate audit or other



verification as required. SP AusNet will maintain the source financial records within its integrated financial and asset management systems.

## **2.5 Commencement Date, Version History and Publication**

### ***Commencement date***

The methodology and cost allocation principles contained in the CAM are consistent with those that SP AusNet has applied in reporting electricity distribution service costs within the current, and previous, regulatory reporting periods to which the Essential Services Commission (ESC) distribution pricing determinations applied, including the most recent Regulatory Accounting Statements submitted, i.e. for the year ending 31 December 2009.

Subject to AER approval, the CAM will be implemented from 1 January 2011 and has been applied in the development of SP AusNet's building block proposal for the 2011-2015 regulatory control period.

### ***Version history and date of issue***

The NER provides for the amendment of the CAM from time to time, and requires that the history and date of issue of the document be updated accordingly. As such, this document includes a version control table, located on the second page, to detail version number, effective date and details of the amendment.

### ***Publication***

In accordance with the requirements of clause 6.15.4(h) of the NER, SP AusNet will maintain a current copy of the Cost Allocation Method, once approved by the AER, on its website [www.sp-ausnet.com.au](http://www.sp-ausnet.com.au).

### 3 SP AusNet’s Electricity Distribution Services

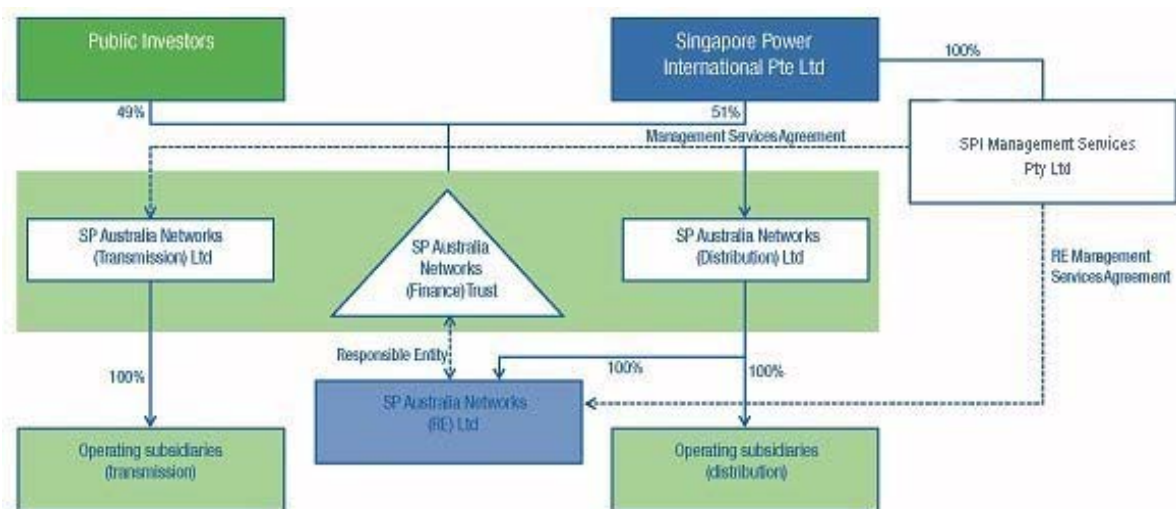
#### 3.1 Corporate Structure

Clause 3.2(a) (4) of the AER’s Guidelines requires that a description of the DNSP’s corporate and organisational structure be provided within the CAM.

SP AusNet is Victoria’s largest energy transmission and distribution company, delivering electricity and gas to over 1 million business and residential customers across the state. SP AusNet’s network assets include 100% of Victoria’s electricity transmission network, an electricity distribution network in the state’s east and a natural gas distribution network in Victoria’s west.

SP AusNet is a publicly listed company on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST), and is 51% majority owned by Singapore Power International Pte Ltd. SP AusNet’s corporate structure, shown below in Figure 1, provides clear separation between Transmission and Distribution (electricity and gas) assets, services, costs and revenues. This separation is required for a number of reasons, including market, funding and regulatory requirements.

Figure 1: SP AusNet’s corporate structure



SP AusNet’s electricity distribution services, and associated regulatory reporting, are contained within the operating subsidiaries of SP Australia Networks (Distribution) Ltd, namely SPI Electricity Pty Ltd and SPI Networks Pty Ltd.

Core management and strategic services are provided to SP AusNet’s Transmission and Distribution businesses by SPIMS, a wholly-owned subsidiary of Singapore Power International Pte Ltd, under a 10 year management service agreement which commenced in October 2005. In September 2008, SP AusNet entered into a seven year IT services agreement with Enterprise Business Services (Australia) Pty Ltd (EBS), a wholly-owned subsidiary of SPIMS.

The management and IT services are subject to review and oversight by the ARMC as they are related party transactions. SPIMS and EBS charges to SP AusNet comprise:

- SPIMS Management Service Charges, which are the actual employee costs of the management personnel providing the strategic and management services to SP AusNet;
- SPIMS Performance Fees, which are incentive-based fees determined in accordance with the Agreement, but are not allocated into SP AusNet's regulated businesses; and
- IT service charges which are based on the actual operating costs incurred by EBS in delivering end-user computing, application services and managed services (including employee and non-labour costs). Project and advisory services are charged to SP AusNet's capital and operating projects based on the actual costs incurred by EBS in delivering those services.

### 3.2 Operational Structure

SP AusNet's integrated operational structure supports the delivery of our corporate strategy, providing strong focus on continually improving outcomes and performance of our regulated network assets for all customers and stakeholders, while pursuing business growth in new unregulated areas.

Operational divisions are split along functional lines, providing the efficient delivery of asset management, construction, maintenance and customer services to the group's three regulated network businesses, and external customers.

- Networks Strategy & Development:
  - responsible for the stewardship of SP AusNet's regulated energy networks.
  - includes: regulation and network strategy; network reliability and quality of supply; networks planning; network engineering; project design; works program management; customer strategy.
- Integrated Network Services:
  - responsible for delivery of all regulated, network asset related works and field services, including customer projects.
  - includes: network operations and control; customer connections; construction and maintenance of network assets; supply restoration; logistics and procurement; Advanced Metering Infrastructure (AMI) Project team.
- Select Solutions:
  - responsible for delivery of regulated and unregulated niche asset services to SP AusNet's regulated networks and external customers.
  - includes: metering services; vegetation management; asset inspection; technical services (e.g. chemical testing, asset condition monitoring).
- Corporate Groups:
  - responsible for providing the full range of support services required by the operational divisions, and other internal and external stakeholders.
  - includes: Office of the Managing Director (MD); IT & Communications Strategy; management of IT services; Finance; Corporate Strategy & Planning; General Counsel & Company Secretary; People & Safety; Risk & Assurance.

Should circumstances change materially, either from a quantitative or qualitative perspective (e.g. due to significant corporate or structural changes), then SP AusNet will approach the AER to amend its CAM.

### 3.3 Categories of Electricity Distribution Services

SP AusNet's electricity distribution network carries electricity from the transmission network to substations for distribution to connected electricity customers in eastern metropolitan Melbourne and eastern Victoria. The network is 47,000 kms in length, spans an area of approximately 80,000 square kms and services more than 600,000 customers.

Under the NER, the AER may classify distribution services as follows:

- standard control services (previously prescribed distribution services),
- alternative control services (previously excluded distribution services),
- negotiated distribution services (previously excluded distribution services), and
- non regulated services.

Clause 3.2(a)(5) of the AER's Guidelines requires SP AusNet to specify the categories of distribution services that it provides, to which costs are to be attributed or allocated, and the types of persons to whom those services are provided.

In accordance with this requirement the distribution services that SP AusNet provides are set out below:

- **Standard Control Services**, including: planning, design and construction of the distribution network; maintaining the distribution network and connection assets; operating the distribution network and connection assets for DNSP purposes; emergency response; new connections requiring augmentations; and associated administrative support. These are provided to all residential and business customers connected to the electricity distribution network.
- **Alternative Control Services**, including: energisation of new connections; operation and maintenance of SP AusNet's public lighting assets; rearrangement or relocation of network assets or supply enhancements requested by customers; emergency recoverable works; disconnections and reconnections; temporary supply services; service truck visits; supply abolishments; reserve feeder service; and elective underground service. These may be provided to all residential and business customers, government agencies, retailers, developers or individuals seeking non-standard services or who may be responsible for damage to network assets.
- **Negotiated Distribution Services**, including: new public lighting; and alteration or relocation of SP AusNet's public lighting assets. These may be provided to government agencies or developers.
- **Advanced Metering Infrastructure (AMI) Program**, representing the roll-out of advanced metering infrastructure and associated regulated metering related services in accordance with the Victorian State Government's 2006 policy determination. The amended Cost Recovery Order In Council legislated cost recovery for these regulated services, as defined, from 2009 to 2015, including transitional arrangements for 2006 – 2008 AMI related expenditures.

- **Non regulated (non-distribution) Services** are those that SP AusNet is not obliged to provide and which are capable of being provided on a contestable basis. These are not subject to economic regulation under the NER. Effective competition exists for these services so that the customer has a choice of service provider and prices are set by the market. These services may be provided to other utilities, government agencies, business or individual customers. In SP AusNet, these services are delivered by the Select Solutions division, and include metering services, vegetation management, asset inspection and technical/laboratory services.

The service classifications presented above are consistent with the service classifications in the AER's final decision for the 2011-15 distribution determination to apply to SP AusNet. .

## 4 Cost Allocation Principles

Clause 3.2(a)(6) of the Guidelines requires SP AusNet to include within the CAM details of the principles and policies used for attributing costs directly to, or allocating costs between, categories of distribution services. These principles and policies must meet the requirements of clause 2.2 of the Guidelines.

SP AusNet's CAM has been developed in accordance with the Cost Allocation Principles contained in the NER. These principles support effective cost allocation and underpin the cost allocation policies and processes used by SP AusNet to attribute costs to, or allocate costs between, categories of distribution services:

- 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;
- only costs that are directly attributable to the provision of a particular category of distribution services will be attributed to that category of services;
- shared costs incurred in providing several categories of distribution services will be allocated between these categories using a causal allocator, except to the extent that the cost is immaterial or a causal relationship cannot be established, in which case a non-causal allocator will be used, subject to AER approval;
- an *avoided cost* approach will not be used to allocate shared costs;
- costs will not be allocated more than once (i.e. double-counted) and the same cost will not be recovered more than once through the charges levied for all distribution services;
- the principles, policies and approach used to attribute costs directly to, or to allocate costs between categories of distribution services will continue to comply with the ESC's Electricity Industry Guideline No. 17 'Electricity Ring-Fencing'. When the guideline is replaced by new distribution ring fencing guidelines published by the AER in accordance with clause 6.17 of the NER, the CAM will comply with the new guidelines;
- costs that have been attributed or allocated to categories of distribution services will not be reattributed or reallocated to another category of distribution services during the course of a regulatory control period; and
- the proposed cost allocation method is consistent with SP AusNet's previous cost allocation principles, policies and methodology allowing for comparison between historical cost allocation for periods to which ESC distribution pricing determination applies and later regulatory control periods.

SP AusNet's detailed principles, policies and processes for attributing costs directly to, or allocating costs between, categories of distribution services are contained in the following section.

## 5 Detailed Principles and Policies for Attributing and Allocating Costs

### 5.1 SP AusNet's Guiding Principles for Cost Allocation

SP AusNet's cost allocation method and processes have been developed in line with the following guiding principles and policies:

- direct costing/attribution will be used wherever a clear 'line of sight' exists between the cost incurred and the network assets /network service;
- ongoing review will seek to increase the level of direct cost attribution and reduce the level of costs subject to allocation;
- cost allocations will be automated wherever possible;
- cost allocation methodology and controls will be subject to regular internal and independent review; and
- cost allocation methodology must maintain consistency between reporting periods.

### 5.2 SP AusNet's Costing Overview

SP AusNet uses the Oracle financial system to budget, capture and report costs. Costing entries include details of cost centre, account and project number. The general ledger is structured on a responsibility basis, identifying the spending cost centre ('who') and cost account ('what'). General ledger reporting gives a view of total cost 'inputs' and supports internal budget accountability reporting and statutory reporting.

The project ledger collects these cost inputs on individual projects, jobs or work programs, which are summarised up (mapped) to work codes (as discussed in section 5.5.1), reflecting categories of capital, operating and maintenance activities and services. Activity reporting provides a view of cost 'outputs/outcomes' and supports regulatory reporting, benchmarking and pricing requirements.

SP AusNet attributes costs directly to projects, activities and services where possible and appropriate. Where costs are shared, and unable to be directly attributed, the use of activity based costing and appropriate cost allocators are used to allocate costs across projects, activities and services, to satisfy the needs of internal management reporting, statutory reporting and regulatory information requirements.

### 5.3 Summary of Cost Types

The following categories represent the key types of operating costs for SP AusNet:

- Labour costs – through the payroll are either directly costed / attributed to asset related work codes and activities (maintenance and capital expenditure) via job orders and projects in the asset management system and labour timesheets, or allocated (for shared support services) on the basis of an activity based costing approach (causal basis);
- Materials costs and invoiced contract and services costs (third parties) – through direct costing / attribution to asset related work codes and activities via the inventory management or accounts payable systems, or allocated on an activity based costing approach, referencing the causal drivers of the cost in the case of shared costs;

- Directly costed items – through system-based, general ledger account attribution (direct attribution) due to the specific nature of the cost (e.g. property taxes, license fees, network charges); and
- Related Party transactions
  - Management service charges (SPIMS) – allocated between categories of distribution services via an activity based costing survey. Within the service categories, charges are then capitalised to capital expenditure cost categories or operating cost categories on the basis of the direct expenditure incurred in those cost categories. Performance fees are directly attributed to the non regulated service category.
  - EBS and Jemena Asset Management – IT capital project delivery and distribution network construction services are directly attributed to relevant capital works projects and activities via the accounts payable system. EBS operational IT services are allocated on an activity based costing approach, referencing relevant causal cost allocators.

#### **5.4 Cost Allocation Processes**

The following processes and tools are used to support SP AusNet’s cost allocation method:

##### Directly Attributable Costs

- Direct Cost Attribution (by direct mapping of general ledger accounts or at source transaction for materials and accounts payable transactions);
- Manual Project Journals (cost transfers); and
- Labour Timesheets.

##### Shared /Allocated Costs

- Activity Based Costing (ABC) analysis (including ABC Management Surveys and causal cost allocators).

#### **5.5 Directly Attributable Costs**

Wherever possible, costs are directly attributed to assets and distribution service categories where the cost is directly related to the management (i.e. operation, maintenance, construction) of the asset or the delivery of the service. In other words, where there exists a clear ‘line of sight’ between the costs incurred and the particular assets and/or service, then these costs are directly attributed to those assets and/or service categories. Within this context, the closer the costs and/or activity is to the asset or category of service, the stronger the causal relationship and simpler the cost attribution to that particular asset or service. This applies irrespective of the type of cost.

##### **5.5.1 Direct Cost Attribution**

The following table provides a summary of the cost items that SP AusNet directly attributes to distribution services, including the process and basis for that attribution:



SP AusNet (Distribution) Cost Allocation Method – November 2010

| Cost Types                           | Description   | Basis of Attribution / Cost Driver   | Service/s Attributed to   | Method changed from periods of ESC pricing determination? |
|--------------------------------------|---|--|---|---|
| Labour                               | Includes the following:<br>Normal and overtime salaries and wages, associated payroll oncosts and employee/ industry allowances | Standard rates specific to job type, directly attributed by employee timesheet to job/ work order  | Standard Control<br>Alternative Control<br>Negotiated<br>AMI<br>Non Regulated | N   |
| Materials                            | Inventory and non-inventory (irregular) items   | Directly attributed to job/ work order at average cost.  | Standard Control<br>Alternative Control<br>Negotiated<br>AMI<br>Non Regulated | N   |
| Regulated Levies and Charges         | Regulatory obligations and industry levies and charges (see below)  | Directly attributed to relevant network by General Ledger account mapping or direct costing via Accounts Payable ( <i>*note that a range of other levies and charges are allocated across different categories of services - see Section 5.6.2</i> ) | Standard Control  | N   |
| Services/ Accounts Payable invoicing | Provision of services by external parties   | Directly attributed to job/ work order or directly attributed by General Ledger account mapping  | Standard Control<br>Alternative Control<br>Negotiated<br>AMI<br>Non Regulated | N   |

| Specific Cost Items subject to Direct Attribution |   |  |   |   |
|---|---|--|---|---|
| Cost Item   | Description   | Basis of Attribution / Cost Driver   | Service/s Attributed to                             | Method changed from periods of ESC pricing determination? |
| <b>Regulated Levies and Charges</b>               |   |  |   |   |
| Guaranteed Service Level payments                 | Regulated obligation for customer service levels  | GL account directly attributed   | Standard Control                                    | N   |
| Distribution Licence Fees                         | Regulatory Obligation   | GL accounts directly attributed to relevant Network  | Standard Control                                    | N   |
| TUoS Fees   | Transmission network connection and use of system   | GL accounts directly attributed  | Standard Control                                    | N   |
| ESV & Ombudsman levies                            | Payments to the ombudsman and Energy Safe Victoria  | GL accounts directly attributed  | Standard Control                                    | N   |
| <b>Accounts Payable &amp; Services</b>            |   |  |   |   |
| Claims/ settlements and surge payments            | Domestic power surge claims, other claims and settlements due to third parties  | GL accounts directly attributed  | Standard Control                                    | N   |
| Environmental Service Costs                       | Site remediation, asbestos meter boards removal/disposal, oil containment etc   | Directly attributed to regulated Network to which the site/property relates  | Standard Control<br>AMI<br>Non Regulated (e.g. Gas) | N   |
| Site security costs                               | Costs associated with security at SP AusNet stations and sites  | Directly attributed to regulated Network to which the site relates   | Standard Control                                    | N   |
| Land Tax  | Impost associated with land holdings for SP AusNet's Distribution Network   | Directly attributed to regulated Network to which the site/ property relates ( <i>*note that a range of other property related charges are allocated across different categories of services - see Section 5.6.2</i> )   | Standard Control                                    | N   |
| Property & Liability insurance premiums           | Property & Liability insurance premiums (including bushfire liability) applicable to SP AusNet's Electricity Distribution Network | Directly attributed to regulated Network to which the insured site / property / asset relates ( <i>*note that these premiums are negotiated, and charged, to each of SP AusNet's businesses. The premiums that are incurred by SP AusNet Electricity Distribution are only attributable to standard control services</i> ) | Standard Control                                    | N   |
| <b>Related Party Transactions</b>                 |   |  |   |   |
| SPIMS Performance Fees                            | Incentive payments based on the achievement of predefined performance kpi's   | GL accounts directly attributed  | Non Regulated                                       | N   |

To support the attribution and allocation of costs, SP AusNet uses an ABC hierarchy and structure within the Project Ledger that initially 'parents' work orders/projects to defined capital, operating and maintenance activities (or work codes), and then in turn maps these work codes to regulated and non regulated distribution services.

The financial system and works management system have been developed to assist project managers and asset service teams to track and report detailed project cost or activity information, based on the use of work orders, project numbers and work codes. In cases where operational units or work teams perform a direct, dedicated service to end assets, then these costs are directly attributed, via default payroll coding, to the relevant work code for the assets or service (e.g. SCADA support team, network controllers). This method of default payroll costing is used in place of labour timesheets, which apply where a range of projects or activities are performed in the same pay period.

The following list of Project Ledger Operating & Maintenance (O&M) work codes are presently used to attribute costs directly to categories of distribution services:

**Network Operating Costs**

**Distribution Service Category**

|                                    |                                  |
|------------------------------------|----------------------------------|
| Marketing                          | Standard Control/Non Regulated   |
| Supply Negotiations & Minor Design | Standard Control                 |
| Meter Reading Activity             | Alternative Control/AMI/Metering |
| Special Reading Activities         | Alternative Control/AMI/Metering |
| Non Regulated Business             | Non Regulated                    |
| External Material Services         | Non Regulated                    |
| Contestable Meter Reading          | Non Regulated                    |
| AMI Project Operating Expenditure  | AMI/Metering                     |
| Fixed Charges                      | Alternative Control              |

**Network Maintenance Costs**

**Distribution Service Category**

|  |                                      |
|--|--------------------------------------|
| Fault & Emergency Work                   | Standard Control/Alternative Control |
| Systems Operations                       | Standard Control                     |
| Dispatch                                 | Standard Control                     |
| Overhead Line Maintenance                | Standard Control                     |
| Voltage Complaints                       | Standard Control                     |
| HV Installation Maintenance              | Standard Control                     |
| Primary Maintenance Field Devices        | Standard Control                     |
| Secondary Maintenance Field Devices      | Standard Control                     |
| Communications Maintenance Field Devices | Standard Control                     |
| Zone Substation Planned Maintenance      | Standard Control                     |
| Zone Substation Fault & Emergency Work   | Standard Control                     |
| Line Inspection                          | Standard Control                     |
| Vegetation Management                    | Standard Control                     |
| Insulator Washing                        | Standard Control                     |
| Minor Fire Mitigation                    | Standard Control                     |

|                                    |                               |
|------------------------------------|-------------------------------|
| Meters T/SW & Services Maintenance | Standard Control/AMI/Metering |
| Underground Cable Maintenance      | Standard Control              |
| Public Lighting Maintenance        | Alternative Control           |
| Customer Installation Inspections  | Alternative Control           |
| Recoverable Works                  | Alternative Control           |

### 5.5.2 Manual Project Journals

The Manual Project Journals are 'exception based' cost adjustments used where an employee (or specific expense such as external consultancy) is assigned to, or engaged on, a specific project for short periods. In cases where project related man-hours of a material level are identified in non-timesheet areas (e.g. Finance/Treasury – equity raising costs), this time may be recorded and journalled directly to the specific project from the payroll costing default codes.

### 5.5.3 Labour Timesheets

SP AusNet operational staff employ an on-line timesheet facility to track and charge hours worked to specific projects and activities (capital or operating / maintenance), and in turn, to service categories. Staff working on such specific projects must complete timesheets for each pay cycle, which capture work hours and charge all projects on the basis of a standard charge rate. The charge rate includes direct labour costs and applicable labour oncosts such as workcover, superannuation and payroll tax.

Timesheets apply in cases where a range of different projects and activities are performed during the period, rather than the 'dedicated' support or service situation referred to in section 5.5.1 above.

## 5.6 Shared or Allocated Costs

SP AusNet employs an ABC approach to allocate those remaining costs that are not directly attributed via the methods discussed above. These 'shared' costs are initially pooled within the projects ledger against cost centre 'overhead / administration' project codes, and then capitalised or allocated between relevant categories of services, for regulatory reporting, on the basis of causal cost drivers as follows:

- Significant non-labour items, such as general insurance premiums, stores costs and audit fees, and other significant non-project non-labour costs are allocated to service categories by the Regulatory Accounting team using appropriate causal cost drivers, such as asset values or inventory transactions;
- Non-project costed labour (i.e. labour costs not directly charged to projects in accordance with sections 5.5.1, 5.5.2 or 5.5.3 above are generally of a corporate or overhead nature) and other general administrative and overhead costs, are subject to allocation via a formal, quarterly, business-wide, effort-based ABC survey conducted for every SP AusNet responsibility centre (i.e. SPAN ABC Survey); and
- Management service charges from SPIMS are allocated between distribution service categories on the basis of a formal, quarterly, effort-based ABC survey completed by every SPIMS employee (i.e. SPIMS ABC Survey). In turn, the service charges are allocated to capital and

operating cost categories for regulatory reporting in proportion to the direct expenditure incurred in those cost categories.

### 5.6.1 ABC Surveys

#### SP AusNet ABC Survey

The SP AusNet ABC survey requires cost centre managers to accurately complete and submit, on a quarterly basis, their assessment of the split of the residual 'shared' or overhead costs remaining within their reporting cost centre, after the direct attribution of all project-costed labour and non-labour expenditure. The survey is structured to list the key activities performed within the cost centre, with a relevant cost driver, to allocate the shared cost of each activity (e.g. full-time employees (FTE) numbers, asset values, debt balance, revenues). The overall summarised outcome of the cost centre's survey is then applied to the residual shared cost pool for that cost centre.

The survey provides an activity to network/service matrix covering:

- Networks (Transmission, Electricity Distribution and Gas Distribution)
- Activity expenditure types (operating and capital expenditure)
- Lines of service (Regulated and Non regulated).

The SPAN ABC survey supports the following cost allocation processes:

- To split non-project coded expenditure to meet the requirements of regulatory reporting, statutory segment reporting, and impairment testing;
- To derive, and 'true-up', the rates for capitalising reasonable business overheads to new constructed assets in accordance with accounting standards and internal policy; and
- To review the reasonableness of labour allocations generated through the payroll and timesheet systems and to identify the need for adjustments if required.

#### SPIMS ABC Survey

As discussed earlier in section 3.1, all management staff, including SP AusNet's executive leadership team, are employed by a separate entity SPIMS, which is 100% owned by Singapore Power International Pte Ltd. SPIMS provides management and strategic services to all SP AusNet businesses, on an actual costs basis.

The SPIMS ABC survey is based on estimated management effort and must be accurately completed and submitted by all employees of SPIMS on a quarterly basis to determine the allocation of the management service charges between distribution service categories (ie. to standard control, AMI program and non regulated services).

The subsequent allocation of SPIMS service charges down to capital and operating cost categories, for regulatory reporting, is based on the direct expenditures incurred in those cost categories.

SPIMS performance (incentive based) fees are costed to SP AusNet's businesses and reported within management and statutory accounts, however, these fees are not allocated to regulated business segments within regulatory reporting (ie. are directly attributed to the non regulated service category).

### **5.6.2 Incremental Costing approach for Alternative Control Services**

SP AusNet's shared costs are allocated between operating activities and capital work projects, applying an overhead capitalisation process to capitalise reasonable overhead costs directly incurred in the purchase or construction of new network assets (refer section 5.7 for further details).

The shared costs that are not capitalised (i.e. expensed) are allocated to Standard Control services and Non Regulated services. AMI / Metering RBPC receives allocated SPIMS and IT service charges.

SP AusNet does not allocate shared operating costs to Alternative Control operating services but instead applies an incremental costing approach which attributes only the direct costs incurred in performing these operating services.

"Incremental costs" are the additional costs that SP AusNet will incur as a result of expanding the output of a service defined as an Alternative Control service.

Whilst the costs that are considered incremental can theoretically vary greatly depending on the size of the increment, for the purposes of cost allocation Alternative Control services will capture only:

- The labour, and associated on-costs, of providing those services;
- Direct contractor costs associated with undertaking such work; and
- Any materials (e.g. fuel) that directly relate to the volume of services provided.

### 5.6.3 High Level Breakdown of Cost Items Subject to Allocation

SP AusNet employs an Activity Based Costing (ABC) approach to allocate costs that are not directly attributed via the methods discussed above. The following table presents a high level breakdown of the shared/overhead cost items that are subject to allocation, the basis for the allocation and the distribution service categories to which the costs are allocated:

| Cost Subject to Allocation    | Description  | Service/s Allocated to   | Basis of Allocation/ Cost Driver   | Method changed from periods of ESC pricing determination? Y/N | Comments  |
|-------------------------------|--|--|--|---|---|
| SPIMS Charges                 | Service Charges - Management personnel costs for strategic and management services (Actual employee costs only)<br><br>Performance Fees (Non Regulated only)   | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated<br><br>Non Regulated | Based on quarterly SPIMS ABC survey results of management estimated effort<br><br>Directly attributed to Non Regulated based on achievement of predefined KPIs   | N   | Survey changed from annual to quarterly in 2008   |
| EBS Charges                   | Service Charges:<br>1. End-User Computing for desktop, voice and service desk<br>2. Application support and enhancements<br>3. Managed Services being data centres, servers, storage and networks<br>4. Project and Advisory Services (Employee/ labour and non labour costs, support costs) | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated                      | Allocations based on identified, relevant, causal cost allocators for each service and ABC survey<br><br>Project & Advisory charges directly attributed to the relevant projects   | N   | New service provider arrangement established in 2009 replacing previous in-house arrangements |
| <b>Finance &amp; Strategy</b> |  |  |  |   |   |
| CFO                           | Admin costs of the office of the Chief Financial Officer   | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated                             | Costs allocated on the basis of consolidated Finance & Strategy ABC survey results   | N   |   |
| Corporate Finance             | Statutory reporting, financial accounting, coordination of budget process and monthly reporting, fixed asset accounting and revenue forecasting functions  | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated                             | Costs allocated by ABC survey, based on estimated staff time for functions - statutory reporting, fixed assets, revenue forecasting, monthly reporting and back office treasury functions  | N   |   |
| Treasury                      | Debt and equity raising and debt, liquidity and insurance management functions   | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated                             | Costs allocated on basis of ABC survey, using estimated staff effort and asset values for the following functions - debt and equity raising, debt administration, liquidity management, insurance, reporting and compliance, and relationship management   | N   |   |
| General Insurance Premiums    | General insurance premiums relating to the SP AusNet Electricity Distribution business - Directors & Officers, motor vehicle, personal accident, travel  | Standard Control<br>Non Regulated  | General insurances allocated on the basis of total business ABC Survey result, weighted by FTEs.<br><b>(Note: property and liability premiums applicable to the Electricity Distribution business, including bushfire liability, are directly attributed to Standard Control services only).</b>   | Y   | Previously all Insurance Premiums allocated to Standard Control on materiality grounds        |
| Accounting Shared Services    | Shared accounting services, accounts payable, billing and receivable, payroll, system support, general ledger operations and Head Office building services functions   | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated                             | Costs are allocated on the basis of ABC survey, using estimated staff time attributed to functions listed - building services, billings and receivables, system support, accounts payable and GL Operations  | N   |   |
| Management Accounting         | All management and regulatory accounting functions performed for operating and corporate divisions - reporting, budgeting, forecasting etc   | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated                      | Costs allocated on basis of ABC survey. Causal basis is proportion of manhours across the team on the following functions - business plan coordination, budgeting, monthly reporting and forecasting obligations, review of Capital Works submissions, work in progress management, audit actions, and business case preparation. Support to AMI project directly attributed via labour timesheets | N   |   |
| Taxation                      | Management of taxation functions including compliance, planning and accounting   | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated                             | Costs allocated on the basis of ABC survey. The causal basis for tax compliance and tax planning is estimated labour effort and tax accounting is based on no. of legal entities.  | N   |   |
| Audit Fees                    | All external audit fees in relation to Statutory and Regulatory Accounts for the distribution business   | Standard Control<br>AMI<br>Non Regulated   | For audit work not directly attributed, the basis for allocation is Network assets values and Regulated Revenues   | N   |   |
| FBT                           | Employee related costs of fringe benefits tax, car leases and car parking for SP AusNet employees  | Standard Control<br>Non Regulated  | Allocated on basis of total business ABC Survey result, weighted by FTEs   | N   |   |

SP AusNet (Distribution) Cost Allocation Method – November 2010

| Cost Subject to Allocation            | Description  | Service/s Allocated to  | Basis of Allocation/ Cost Driver   | Method changed from periods of ESC pricing determination?<br>Y/N | Comments  |
|---------------------------------------|--|---|--|--|---|
| Debtor Management Costs               | Bad Debts Recovered, Bad Debts Expense, Doubtful Debts Expense and Debt Collection Fees  | Standard Control<br>Non Regulated   | Based on the Debtors Trial Balance at period end. Debtors are directly attributable to each of the Distribution Businesses. Within the electricity DNSP, costs then allocated between service categories according to regulated /non regulated revenue split.  | Y  | Previously all Debtor Management Costs allocated to Standard Control on materiality grounds |
| <b>People &amp; Safety</b>            |  |   |  |  |   |
| Human resources, OHS and IR           | Human resource policies and strategy, health, safety, environment work practices and quality, and industrial relations           | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey. The causal basis is estimated effort for human resources policy and strategy, health, safety, environment and quality, works practice and training, dispute resolution, unfair dismissals, interpretation advice, classification review, strategy development and M&A advice activities. | N  |   |
| <b>IT Strategy</b>                    |  |   |  |  |   |
| IT Strategy                           | IT strategy, architecture, portfolio, real time systems and IT Services  | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated | Costs allocated on the basis of ABC survey. The causal basis being time spent on the strategy and enterprise architecture functions provided to the business. Costs attributed to AMI project via labour timesheets or direct costing of third party service invoices  | N  | Operational and project IT services delivered by EBS from 2009                              |
| <b>Other Corporate Services</b>       |  |   |  |  |   |
| Head Office Lease Costs & Car Parking | Head office building lease charges, outgoings and car parking  | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated | Allocated on basis of total business ABC Survey result, weighted by FTEs   | N  |   |
| Office of the Managing Director       | Administrative costs for the office of the MD  | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Allocated on basis of total business ABC Survey result   | N  |   |
| Investor Relations                    | Activities required in relation to SP AusNet result announcements and communications, and in relation to debt and equity raising | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey result. The causal basis used is estimated time for the functions performed - investor meetings, general reporting, AGM preparation, half year and full year announcements and support of finance raising activities  | N  |   |
| Strategy & Business Development       | Corporate planning, business development, sustainability functions   | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey. Causal basis is estimated time on corporate planning, business development functions and sustainability  | N  |   |
| General Counsel & Company Secretary   | Legal and secretarial support for the SP AusNet business   | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated | Costs are allocated on the basis of ABC survey result. The causal basis used is staff time basis represented by diary entries, notes and outputs produced. Legal costs associated with AMI project directly costed.  | N  |   |
| Risk & Assurance                      | Internal audit functions, risk management, information security and regulatory compliance functions                              | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated | Costs allocated on the basis of ABC survey. The causal basis is time effort in audit activities, risk management, regulatory compliance, business continuity and security and crisis management. AMI costs directly costed via A/P or labour timesheets  | N  |   |
| Corporate Communications              | Corporate communications to internal and external parties  | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey using estimated time effort for providing communications for media management, internet and intranet management, investor and employee communications.  | N  |   |

| Cost Subject to Allocation   | Description   | Services/ Allocated to  | Basis of Allocation/ Cost Driver  | Method changed from periods of ESC pricing determination?<br>Y/N | Comments |
|--|---|---|---|--|----------|
| <b>Networks Strategy, Development &amp; Services</b>   |   |   |   |  |          |
| Economic Regulation & Network Strategy   | Management of the networks strategy and regulatory functions, including governance and compliance   | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*<br>Non Regulated | Costs allocated on the basis of ABC survey. The causal basis being estimated time on functions  | N  |          |
| Program Management Office (PMO)  | Portfolio management and reporting capability to improve works utilisation and delivery. Including management of projects and programs, reporting, strategic business requirements and data management. | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey. The causal basis being time effort across relevant PMO processes and functions  | N  |          |
| AMI Program Management Office  | AMI Program management, reporting, governance and compliance  | AMI   | AMI PMO costs directly allocated to AMI   | N  |          |
| Property Management  | Management of operational and network properties and facilities   | Standard Control<br>Alternative Control*<br>Negotiated*                         | Costs allocated on the basis of ABC survey. The causal basis is the number of properties managed (land easements, leases and land & buildings).   | N  |          |
| Property Levies and Charges  | Outgoings including water, gas, electricity, permits and licences   | Standard Control<br>Alternative Control*<br>Negotiated*                         | Costs allocated on the basis of properties managed (land easements, leases and land & buildings).   | N  |          |
| Support and shared administrative costs of Asset Engineering and Project Engineering Departments | Engineering, design, drawings, cost benefit analysis, coordination of works requirements to support the Network and System Planning functions.  | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey. A number of causal drivers are used to allocate work group activities, including load growth, staff nos, annual budget program, and number of engineering standards for safety and regulatory obligations.                                | N  |          |
| Connection Development   | Management of retailer generated work requests and coordinating customer requests for new connections or upgraded connections   | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey. The causal basis being estimated time effort on the functions including preparation of quotes, planning meetings and customer project reporting. Project-specific costs directly attributed to projects via timesheets or direct costing. | N  |          |
| General Management   | General Management administrative and overhead costs for the operating divisions  | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of the overall ABC outcome summary of all departments within the division  | N  |          |
| Customer Services  | Costs related to the customer interface and enquiries function including: Investigations<br>Ombudsman enquiries<br>GSL/Reliability payments administration  | Standard Control<br>AMI<br>Alternative Control*<br>Negotiated*                  | Costs allocated on the basis of ABC survey, using estimated effort on stakeholder relationship management, claims, complaints, damage recoveries, customer inquiries, administration support, process improvements and AMI program support (direct charge via labour timesheet).      | N  |          |
| Logistics and Procurement  | Procurement contract establishment and management, stores and inventory management, fleet administration  | Standard Control<br>Alternative Control*<br>Negotiated*<br>Non Regulated        | Costs allocated on the basis of ABC survey. The causal basis being time spent on fleet management, procurement and tendering, logistics and inventory and spares.   | N  |          |

\* Note: Costs allocated to Alternative Control Capital Work services and Negotiated Capital Work services via SP AusNet's Overhead Capitalisation process.

## 5.7 Overhead Capitalisation Approach

SP AusNet employs a systematic approach to calculate and capitalise reasonable overhead costs in the construction of new network assets. In accordance with internal accounting policy, the overhead capitalisation process references ABC survey results, forecast cost information and a 'true-up' mechanism to ensure that appropriate overhead costs are reflected within reported capital expenditures at the end of each quarter.

The overhead capitalisation rate which is systematically applied to network capital projects through the year is based on the following formula:

$$\frac{\text{Forecast Overhead Costs (for each network)}}{\text{Forecast Direct Capital Expenditure (for each network)}}$$

This network-specific rate is then applied to all direct capital expenditure for that network (i.e. transmission, electricity or gas) automatically through the financial system at the end of each month. As such, the application of capitalised overheads to capital projects, and distribution service categories, is in direct proportion to the direct capital expenditure incurred against the project, or service category.



The overhead cost pool subject to capitalisation reflects the residual 'shared' costs remaining within each cost centre, after the direct attribution of all project-costed labour and non-labour expenditure. Where the ABC survey for the cost centre allocates a percentage of cost centre effort for the period to support capital work, then that percentage of the cost centre's residual overhead cost pool is transferred to 'capitalised overheads' and ultimately allocated to qualifying capital works projects within Work-In-Progress (WIP) (via the overhead capitalisation rate). The operating costs of the cost centre are subsequently reduced by the amounts capitalised.

The overhead cost pool, and the derived overhead capitalisation rate, includes SPIMS service charges. Capitalised SPIMS charges, therefore, are also allocated between distribution service categories based on the direct capital expenditure incurred in those service categories.

Each quarter, the overheads systematically capitalised are reviewed and adjusted to take into account movements in the following:

- The actual direct capital expenditure (compared to forecast);
- The actual overhead costs (compared to forecast); and
- The results of the most recent ABC survey (compared to the prior survey).

Prior to the end of the reporting period, adjusting entries are effected between the general ledger and all relevant capital projects in the project ledger, if the overhead review process identifies that an under, or over, capitalisation of overhead costs has occurred during the period (based on the application of 'actual' overhead costs and latest survey results compared to 'forecast' overhead costs and previous survey results).

The overhead capitalisation process allocates shared costs, initially expensed, to capital works projects within the following distribution service classifications:

- Standard Control Services;
- Alternative Control Services;
- Negotiated Services;
- AMI; and
- Non Regulated Services.