



**Transmission Cost Allocation Methodology
and
Distribution Cost Allocation Method**

As approved by AER

June 2015



Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606
Moonah TAS 7009

Enquiries regarding this document should be addressed to:

TasNetworks Leader Financial Analysis & Reporting
PO Box 606
Moonah TAS 7009
Email: finance@tasnetworks.com.au

Tasmanian Networks Pty Ltd
Transmission Cost Allocation Methodology
and
Distribution Cost Allocation Method
Amendments and Version History

Version No.	Date of Revision	Authorised by	Details of amendment
1.0	May 2015	GM Finance & Business Services	Initial version
	June 2015	Australian Energy Regulator	Regulatory Approval

Amendments to each version of this document will be tracked through TasNetworks' document management system.

Table of Contents

1	Introduction	1
2	Compliance with the National Electricity Rules	1
3	Nature, Purpose and Scope of the CAM	2
4	Date of Commencement.....	2
5	Amendments to the CAM	2
6	Accountabilities and Responsibilities.....	2
7	TasNetworks' Organisational Structure	4
8	Categories of Services	5
8.1	Transmission Services	6
8.2	Distribution Services	7
8.3	Other Non-network services	7
9	Cost Allocation Principles and Policies.....	7
9.1	Overview of financial systems	8
10	Directly Attributable Costs.....	9
11	On-cost Allocation.....	12
11.1	Labour on-costs	12
11.2	Fleet on-costs	12
11.3	Material on-costs.....	12
12	Shared Cost Allocation	13
12.1	Works and Service Delivery Management Costs	13
12.2	Shared Management Costs.....	13
12.3	Capital Expenditure	14
13	Overhead Capitalisation.....	15
14	Compliance Monitoring and Assurance	15
14.1	Maintenance of an Audit Trail and Record Retention	16
15	Publication	16
16	CAM Consistency	16
17	Historical Comparability.....	16
18	Directors Statement.....	17
	Appendix 1 - Allocators used for Shared Management Costs	18

1 Introduction

Tasmanian Networks Pty Ltd (TasNetworks) is a Tasmanian state-owned energy corporation which commenced operations on 1 July 2014, following the merger of the former Aurora Energy Pty Ltd (Aurora) distribution business and the Transend Networks Pty Ltd (Transend) transmission business.

The *Electricity Reform Act 2012* (Reform Act), enacted in December 2012, facilitated the implementation of reforms to the electricity supply industry in Tasmania. The Reform Act enabled the merger of the electricity network businesses owned by Aurora and Transend into a single network business.

TasNetworks owns, operates and maintains the entire electricity network that delivers electricity to more than 280,000 Tasmanian customers.

TasNetworks' core transmission assets include 3,516 circuit kilometres of transmission lines; 7,852 transmission line support structures; 49 substations; seven switching stations; two transition stations; 11,176 hectares of easements; and 37 communications repeater sites.

TasNetworks' core distribution assets include approximately 15,000 kilometres of overhead high voltage lines; 5,000 kilometres of overhead low voltage lines; 2,170 kilometres of high and low voltage underground cables; 30,000 ground and pole-mounted substations; and almost 222,000 poles.

TasNetworks also provides specialist, high-reliability telecommunications services to customers in the Tasmanian electricity supply industry and to other customers, including support for the State Government's trunk mobile radio network. The telecommunications services are used for key operational purposes such as power system protection, monitoring and control, voice communications and asset management functions.

TasNetworks also has a separate business function focused on wholesale telecommunications, which includes supporting the roll-out of the National Broadband Network in Tasmania.

2 Compliance with the National Electricity Rules

Part G of chapter 6A of the National Electricity Rules (the Rules) outlines the procedures that must be adopted by a Transmission Network Service Provider (TNSP) when submitting its Cost Allocation Methodology to the Australian Energy Regulator (AER) for approval. Clause 6A.19.4 (b) requires that the proposed Cost Allocation Methodology must give effect to and be consistent with the cost allocation guidelines published by the AER. The AER published its transmission cost allocation guidelines in September 2007 and these guidelines set out the required format and contents that the Cost Allocation Methodology must cover.

Part F of chapter 6 of the Rules outlines the procedures that must be adopted by a Distribution Networks Service Provider (DNSP) when submitting its Cost Allocation Method to the AER for approval. Clause 6.15.4(b) requires that the proposed Cost Allocation Method must give effect to and be consistent with the cost allocation guidelines published by the AER. The AER published its distribution cost allocation guidelines in June 2008 and these guidelines set out the required format and contents that the Cost Allocation Method must cover.

In the remainder of this document the transmission cost allocation methodology and the distribution cost allocation method are collectively referred to as the CAM.

TasNetworks confirms that the CAM has been prepared in accordance with the requirements of the Rules; and the AER's transmission and distribution guidelines (the AER Guidelines).

3 Nature, Purpose and Scope of the CAM

Nature: This document presents a single CAM that covers the allocation of costs to all the services that are provided by TasNetworks. The CAM has been prepared in accordance with the requirements of the Rules and the AER Guidelines.

Purpose: The CAM outlines the method TasNetworks will utilise to allocate costs to, and between the different categories of network and other unregulated services that it provides. For consistency, and to avoid duplication of documents, both the distribution and transmission cost allocation principles are covered by the CAM. The CAM gives effect to and is consistent with the cost allocation principles and the AER Guidelines.

Scope: The CAM will be used by TasNetworks to ensure compliance with the Rules, the AER Guidelines and in the preparation of:

- forecast operating expenditure included in TasNetworks' transmission revenue proposals and distribution regulatory proposals that are submitted to the AER;
- forecast capital expenditure included in TasNetworks' transmission revenue proposals and distribution regulatory proposals that are submitted to the AER;
- prices for a negotiated transmission or distribution services determined in accordance with the provisions of the Rules; and
- annual statements prepared in accordance with any regulatory information instruments issued by the AER.

The CAM outlines the allocation methodology that will be adopted by TasNetworks in all its business operations. TasNetworks will apply the CAM consistently over time, while retaining the flexibility to accommodate changes that are reflective of matters such as organisational structure, business operations or refinements to cost drivers, cost attribution and cost allocation.

4 Date of Commencement

The CAM was approved by the AER on 26 June 2015 and is effective from 1 July 2015.

The CAM replaces the existing Cost Allocation Method for TasNetworks' distribution services (Aurora) and Cost Allocation Methodology for TasNetworks' transmission services (Transend), and will remain in place until it is amended or replaced.

5 Amendments to the CAM

The process for amending an approved Cost Allocation Methodology or Cost Allocation Method is set out in the Rules and the AER Guidelines. TasNetworks will ensure that any amendments to the CAM are undertaken in accordance with those processes.

6 Accountabilities and Responsibilities

TasNetworks is committed to implementing the CAM in full and to undertake continuous monitoring to ensure ongoing compliance.

The AER Guidelines require TasNetworks to include details of the accountabilities and responsibilities for updating, maintaining, applying and monitoring the CAM.

The overall accountability for the CAM resides with the General Manager, Finance and Business Services.

The following table sets out the key accountabilities and responsibilities for the CAM.

Table 1: Key Accountabilities and Responsibilities

Accountability	Responsibility
Board	Approval of the CAM.
General Manager Finance & Business Services	Overall accountability for the CAM and compliance with the Rules and AER Guidelines.
Leader Finance, Analysis & Reporting	Responsible for the application, maintenance, and amendment of the CAM. Implementation of CAM within the business. Maintenance of relevant supporting costing policies, procedures and guidelines.
Finance Team	Apply the CAM in the preparation of regulatory information notices and development of financial forecasts. Determine those costs that are directly attributable and causal allocators for the allocation of shared costs. Recognise and report financial information in accordance with the CAM. Provide advice and educate staff with regards to requirements of the CAM. Ensure compliance with the CAM.
Leader Legal Services	Provide advice on compliance with the Rules and AER Guidelines.
Leader Regulation	Monitor and advise the Leader Finance, Analysis & Reporting of regulatory developments impacting on the CAM.
Team Leaders/Leaders	Ensure provision of accurate costing inputs and accuracy of information provided in management activity based costing surveys.
All staff	Comply with relevant costing procedures issued by Finance to ensure compliance with CAM.

7 TasNetworks' Organisational Structure

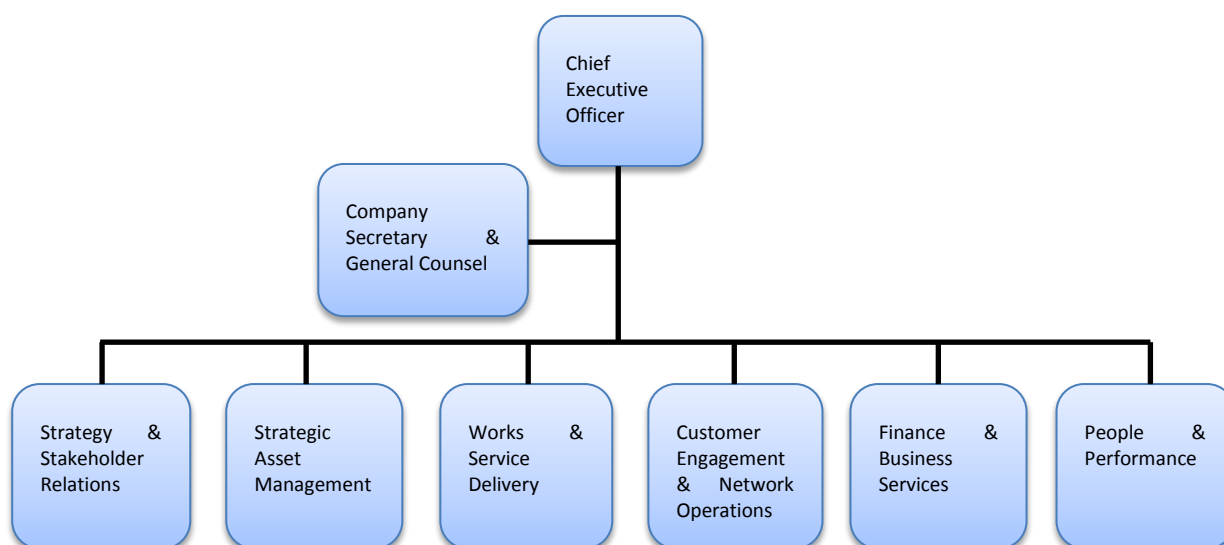
The AER Guidelines requires that a description of TasNetworks' organisational structure is provided in the CAM.

TasNetworks is a Tasmanian State Owned Company incorporated under the *Corporations Act 2001*. TasNetworks has two shareholding ministers, the Treasurer and the Minister for Energy, who hold their shares in trust for the Crown in the Right of the State of Tasmania. The shareholding ministers appoint a Board to provide governance, oversight and strategic direction.

TasNetworks does not separate its organisational structure between distribution and transmission network related functions, consistent with its "One Business" strategy and has adopted a functional organisational structure.. This organisational structure is not framed around the management of either transmission or distribution assets but rather the type of service that is being provided as part of that asset management. Network planning is an example of this model – it is more efficient to have a single planning team that is responsible for the planning of the transmission and distribute networks, rather than an individual transmission planning team and distribution planning team.

This one business approach delivers synergies and efficiencies through the rationalisation and removal of duplicated functions across TasNetworks' business operations. The organisational structure is separated into seven functional groups, which are representative of the services that are being provided and are depicted in Figure 1 below.

Figure 1: TasNetworks' Organisational Structure



These functional groups provide the necessary functions to support the delivery of TasNetworks' corporate strategy and objective of achieving sustainable and predictable pricing for our customers at the lowest sustainable cost.

TasNetworks' business operations are overseen and managed by the Chief Executive Officer (CEO) and the TasNetworks Leadership team (TLT), which comprises the General Managers from each of the functional groups.

A brief overview of these functional groups is provided below.

Company Secretary and General Counsel

The Company Secretary and General Counsel group is responsible for Board management and legal services.

Strategy and Stakeholder Relations

The Strategy and Stakeholder Relations group is responsible for corporate strategy; business performance; strategic risk; economic regulation; pricing strategy and frameworks; market reform activities; external and internal communications; brand strategy; government and shareholder relations; and stakeholder engagement.

Strategic Asset Management

The Strategic Asset Management group is responsible for asset strategy and planning; network analysis and planning; operational and power system technology; smart networks; and demand side management and other new technologies.

Works and Service Delivery

The Works and Service Delivery group is responsible for asset stewardship, including design and estimation; works program management and reporting; project and program works delivery; contract management; field operations; works schedule and dispatch; health, safety and environmental policy, strategy and implementation; the TasNetworks Training Centre; and quality accreditation processes.

Customer Engagement and Network Operations

The Customer Engagement and Network Operations group is responsible for network operations and the Control Centre; network access management; large customer and market relationships; retailer management; the Customer Contact Centre; connection point management and charging; meter data management and publishing; billing enquiries and dispute resolution; and telecommunications asset, network and customer management.

Finance and Business Services

The Finance and Business Services group is responsible for treasury; corporate modelling; financial reporting; risk management and insurance; procurement; fleet, property and facilities; accounts payable and receivable; audit, corporate information systems; and information management.

People and Performance

The People and Performance group is responsible for human resources strategy; change management; human resources policies (excluding health, safety and environment); industrial relations; recruitment; performance management systems; learning and development; human resources advice and support; and payroll and timekeeping.

8 Categories of Services

As the provider of all network services, TasNetworks must initially consider the allocation of its costs to those services that have been classified by the Rules or the AER as the provision of either a transmission or distribution service. Following this initial network service classification, TasNetworks must ensure the allocation of its costs occurs in alignment with the Rules for transmission services and the AER's final classification for distribution services. TasNetworks must therefore not only consider the type of network service that is being provided but also the further classification of that network service provision.

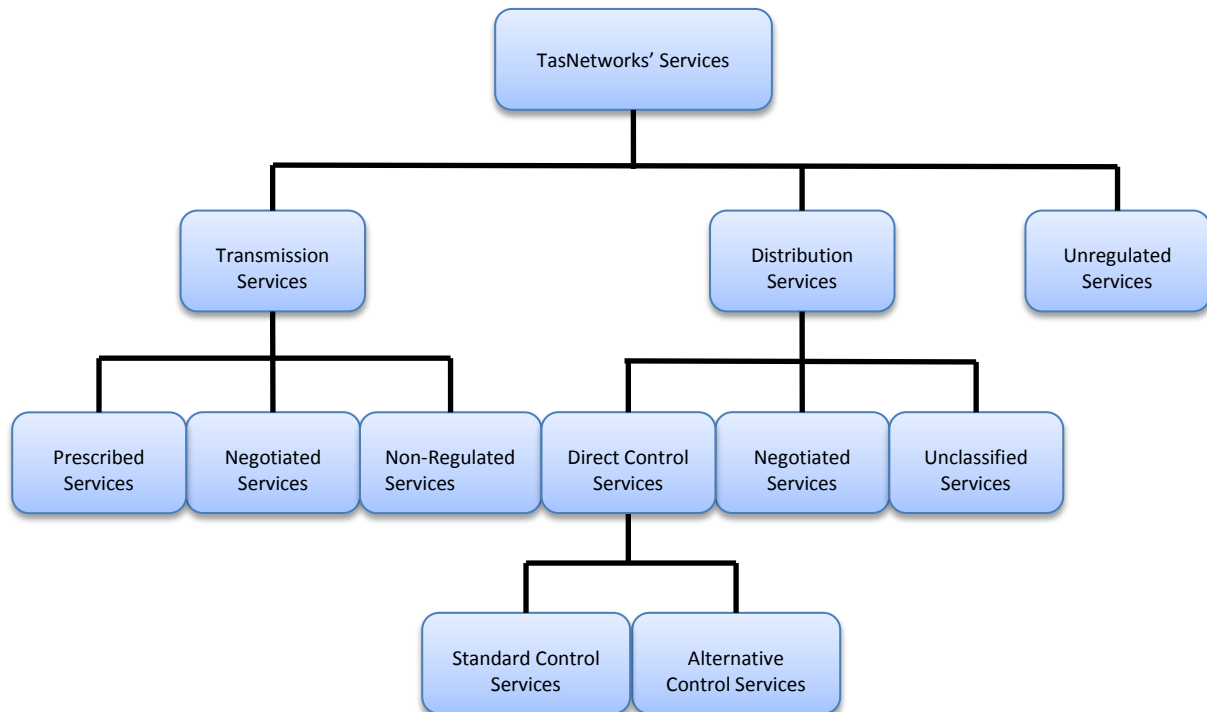
The Rules classify TasNetworks' transmission services as Prescribed Transmission Services, Negotiated Transmission Services or Non-Regulated Transmission Services.

The Rules require that the AER must classify TasNetworks' distribution services as either Direct Control Services or Negotiated Services. The AER must further classify those services classified as Direct Control Services as either Standard Control Services or Alternative Control Services. Those distribution services that are not classified by the AER are unregulated.

Those services that are provided by TasNetworks that are not a transmission or distribution service (such as telecommunications) are not regulated by the AER.

This classification of TasNetworks' services is shown in Figure 2 below.

Figure 2: TasNetworks Service Classifications



TasNetworks' cost allocation principles and policies consider the direct allocation of costs to prescribed transmission services, negotiated transmission services, non-regulated transmission services, standard control distribution services, alternative control distribution services, negotiated distribution services and unregulated or unclassified services. Costs which are not directly allocated to one particular service type (e.g. most corporate overheads) are subject to a shared allocation of costs between prescribed transmission services, negotiated transmission services, non-regulated transmission services, standard control distribution services, alternative control distribution services, negotiated distribution services and unregulated or unclassified services.

8.1 Transmission Services

Set out below are the categories of Transmission services provided by TasNetworks.

8.1.1 Prescribed Services

Prescribed Transmission Services are predominantly shared network services provided to all load and network customers (generators do not receive shared network services). Connection services to another network service provider are also prescribed transmission services as are connection services provided to loads and generators that are Prescribed Connection Services by virtue of Rule 11.6.11.

8.1.2 Negotiated Services

TasNetworks' transmission negotiated services broadly comprise:

- connection services to Transmission Network Users that are not otherwise prescribed connection services;

- shared network services that exceed network performance requirements (as determined by the Jurisdictional Electricity Legislation) and do not have a system wide benefit or which otherwise exceed the network performance requirements in the Rules; and
- Transmission Network User Access arrangements under Rule 5.4A – this might arise where a generator requires augmentation of existing shared network assets that provide prescribed services to existing customers.

8.1.3 Non-Regulated Services.

Non-regulated transmission services include those activities which are provided in a contestable market, such as maintaining a transmission line on behalf of an external party.

8.2 Distribution Services

Set out below are the categories of Distribution services provided by TasNetworks

8.2.1 Standard Control Services

Standard Control Services predominantly relate to services provided over the shared network used to service all network customers connected to it. These services are associated with the access and supply of electricity to customers and include the construction, maintenance, operation, planning and design of the shared network.

8.2.2 Alternative Control Services

Alternative Control Services are customer specific or customer requested services where the customer is charged specifically for the service they request. Alternative Control Services may include the provision of metering or public lighting and those services where a fee has been established by the AER as part of the regulatory process.

8.2.3 Negotiated Services

Negotiated distribution services are those services where the AER require a less prescriptive regulatory approach because relevant parties have sufficient countervailing market power to negotiate the provision of those services. TasNetworks and its customers are able to negotiate services and prices according to a framework established in accordance with the Rules.

8.2.4 Unclassified Services

Unclassified distribution services include those activities that are provided in a contestable market e.g. contestable metering, private pole testing etc.

8.3 Other Non-network services

TasNetworks provides a number of services that are non-distribution and non-transmission that are not subject to regulation.

9 Cost Allocation Principles and Policies

The AER Guidelines require TasNetworks to include details of the principles and policies used for attributing costs directly to, and or allocating costs between categories of services.

In accordance with the AER Guidelines and the Rules provisions, TasNetworks commits to the CAM and its process for attributing costs directly to, and allocating shared costs to categories of service, as detailed in sections 9-13 below. TasNetworks' principles, process and policies support compliance with the following:

- it does not allocate the same cost more than once;
- it does not use an avoided cost allocation method;
- a direct cost is only attributed to one category of service;
- a shared cost is only allocated once between categories of services;
- charges that are levied for the provision of services only recover the same cost once;
- only costs that are directly attributable to a particular category of service will be attributed to that category of service;
- the same cost is not treated as both a direct and a shared cost;
- the principles and policies used to allocate costs between different categories of services have been described in sufficient detail to enable the AER to replicate reported outcomes through the application of the principles and policies;
- costs are directly attributed to, or allocated between categories of services based on the substance of the transaction or event rather than its legal form;
 - In determining the substance of a transaction or event, all of its aspects and implications shall be considered, including the expectations of and motivations for, the transaction or event;
 - for the purposes of determining the substance of a transaction or event, a group or series of transactions or events that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate;
- shared costs which are not directly attributable to the provision of those services, but which are incurred in providing those services, will be allocated using an appropriate causal allocator, with the exception of costs which are immaterial, or where a causal based method of allocation cannot be established without undue cost and effort;
- to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, the allocator will accord with a well-accepted cost allocation method;
- the reasons for choosing any cost allocation method and the numeric quantity (if any) of the chosen allocator is clearly described in the CAM;
- the principles, policies and approach used to allocate costs are consistent with the Transmission Ring-Fencing Guidelines (subject to the AER's waiver decision in May 2014) and Distribution Ring-Fencing Guidelines (in accordance with clause 9.48.4A of the Rules);
- costs which have been allocated to Prescribed Transmission Services will not be reallocated to Negotiated Transmission Services (except as allowed by the Rules);
- costs which have been allocated to Negotiated Transmission Services may, in accordance with the Rules, be reallocated to Prescribed Transmission Services; and
- costs which have been allocated to a particular distribution service will not be reallocated to another distribution service during the course of a regulatory control period.

9.1 Overview of financial systems

TasNetworks utilises financial systems to capture and consolidate all its costs and revenues.

TasNetworks reporting tool (BAF) is used to consolidate transactions from the financial systems for the purpose of management, statutory and regulatory reporting.

The chart of accounts structure enables costs to be automatically costed directly to, or automatically allocates costs between the categories of services provided by TasNetworks.

When costs are incurred they are processed in the financial systems against the following chart of account dimensions:

- responsibility centre/department - defined as the area in the business that is responsible for the work performed;
- activity centre - defined as the nature of the work being performed and is also used to identify between capital and operating expenditure;
- cost element - defined as the nature of the costs incurred such as labour or contracted services; and
- work category - identifies the regulatory classification.

The activity centre and work category dimensions form the basis for the cost hierarchy. Each activity centre and work category is assigned to a category of distribution, transmission or unclassified service. By establishing a clear relationship between the activity centre, work category and the categories of services, the financial systems ensure that costs are correctly attributed to the relevant service.

TasNetworks has 3 main types of costs:

- directly allocated or attributable costs (such as timesheet labour, materials, fleet or direct coding to cost number or via journal such as licences fees, invoices for contracted services etc.);
- on costs, for labour, materials and fleet; and
- shared costs (allocated on the basis of causal cost allocators).

Each of these elements is discussed in turn below.

10 Directly Attributable Costs

TasNetworks attributes costs directly to projects, activities and services where possible and appropriate and where a clear line of sight exists between the cost and the service. A directly attributable cost is one where the cost is identified as being for a single service category and there is no portion of that cost that relates to another service category.

TasNetworks' financial and works management systems allow for direct costing via directly charging the cost to a project cost number via timesheets, invoices or journal entries in the general ledger system.

Costs that are directly allocated to a project number are, in turn, directly allocated to an individual distribution, transmission or other unclassified service category.

The costs that are directly attributable to specific distribution, transmission or other services include:

- labour and related costs;
- inventory or materials;
- fleet charges; and
- other costs (where there is a line of sight between the cost and service).

The following table summarises the cost items that TasNetworks directly attributes to service categories.



Table 2: Directly Attributed Costs

Nature of cost	Description	Basis of costing	Services attributed to
Labour and related costs	Labour costs and other payroll related costs including normal and overtime salaries and wages, associated payroll on-costs and employee/industry allowances; and Supplementary labour support from external providers	Directly attributed based on labour costing process via timesheet entry	Distribution services Standard Control Alternative Control Negotiated Unclassified Transmission Services Prescribed Negotiated Non-Regulated
Subcontractors	External contractors may be sourced to supplement existing workforce for specific projects	Directly attributed to job number	Distribution services Standard Control Alternative Control Negotiated Unclassified Transmission Services Prescribed Negotiated Non-Regulated
Fleet charges	Costs directly charged to works via timesheet entry Fleet costs not allocated directly	Directly attributed via timesheet entry	Distribution services Standard Control Alternative Control Negotiated Unclassified Transmission Services Prescribed Negotiated Non-Regulated
Regulatory levies / licences and fees	Regulatory obligation	Directly attributed via general ledger account mapping to service category	Distribution services Standard Control Alternative Control Negotiated Unclassified Transmission Services Prescribed Negotiated Non-Regulated

Nature of cost	Description	Basis of costing	Services attributed to
Guaranteed service level payments (GSL)	Regulatory obligation for customer service levels	Directly attributed via general ledger account mapping to service category	Distribution services Standard Control
Third party contractor costs	Services provided by external parties to TasNetworks	Directly attributed via general ledger account mapping to service category	Distribution services Standard Control Alternative Control Negotiated Unclassified Transmission Services Prescribed Negotiated Non-Regulated
Other costs	Costs where a direct line of sight between the cost and service exists	Directly attributed via general ledger account mapping to service category	Distribution services Standard Control Alternative Control Negotiated Unclassified Transmission Services Prescribed Negotiated Non-Regulated

11 On-cost Allocation

On-costs relate to expenditure that is not directly attributable to a service via a source document, however arises as a consequence of incurring those directly attributable costs.

TasNetworks has 3 types of on-costs, as follows:

- labour on-costs;
- fleet on-costs; and
- material on-costs.

On-costs are calculated annually as part of the budget cycle. Further details on each type of on-cost are provided below.

11.1 Labour on-costs

Labour costs include labour on-costs associated with the following:

- payroll tax;
- superannuation;
- Workers Compensation; and
- other employee costs (leave).

Labour on-costs are added onto an employee's salaries and wages cost based on the total value of salaries and wages expenditure. This ensures that the true labour cost is reflected and allocated to the appropriate category of service.

11.2 Fleet on-costs

The fleet on-cost relates to costs to operate and maintain the vehicles owned by TasNetworks. These costs typically include:

- administrative costs associated with staff labour and employee costs;
- fuel costs;
- vehicle maintenance; and
- registration and insurance.

The fleet on-cost is charged to services on the basis of total direct labour hours as the causal driver. The costs are directly attributed to categories of service based on timesheet allocation. There is a strong correlation between labour hours and fleet usage on the basis that wherever direct labour hours are utilised that fleet would be required to transport the employee's equipment.

11.3 Material on-costs

Materials are directly attributed to work order at costs. An on-cost is added to the stock material item to recover the costs of:

- purchasing;
- warehousing; and
- logistics.

The material on-cost is charged based on the ratio of total direct material expenditure.

12 Shared Cost Allocation

TasNetworks notes that there is a single management team and organisational structure that provides services to transmission, distribution and other services. These shared costs must be allocated between these services.

Shared costs are those residual costs left after direct allocation of costs. These costs are necessarily incurred in the provision of services, but are not able to be directly allocated to a single service.

Shared costs are either:

- Works and Service Delivery Management costs; or
- Shared Management Costs.

These two cost pools are explained in further detail below.

TasNetworks has undertaken a detailed assessment to identify the most appropriate driver to allocate its shared costs. Where possible TasNetworks allocates shared costs on a causal basis unless the shared cost is immaterial or a causal relationship cannot be established without undue cost and effort. This is consistent with the AER Guidelines and relevant provisions of the Rules. The allocator applied will vary depending on the nature of the shared cost.

Whilst the method for allocating shared costs will remain consistent over the regulatory period, the percentage allocation to categories of service may change, as a result of:

- changes in ABC survey results;
- changes in labour hours compared to forecast; or
- changes in direct expenditure compared to forecast

12.1 Works and Service Delivery Management Costs

Works and Service Delivery Management Costs include those costs relating to the management, planning, operating and monitoring the works program. This includes a portion of non-productive time for field based employees (down time to attend meetings and undertake administrative tasks).

These costs are allocated on a two-step basis, as follows:

- **Step 1** – Costs are allocated across distribution, transmission and other services on a pro-rata basis on the number of direct labour hours as a percentage of the total labour hours.
- **Step 2** – Following allocation to distribution, transmission and other services, the costs are allocated against the transmission and distribution service classifications on the basis of direct labour hours. This cost is allocated on the basis of labour hours via timesheet entry. E.g. for every labour hour worked, a cost entry is attached to recover the above costs.

12.2 Shared Management Costs

Shared Management Costs relate to those overheads that have not been allocated either directly, or do not form part of the pool of Works and Service Delivery Costs.

This pool typically relates to those corporate services where the primary focus of the departments is to support the role of the CEO, the Board and General Managers of groups and subsidiaries to ensure organisational objectives and strategies are met.

Shared Management Costs are allocated on the basis of one of the following three drivers:

- ABC surveys;

- causal allocation driver; or
- weighted average.

Brief descriptions of these three drivers are provided in the sections below. Refer to Table 1 of Appendix 1 for further details on the allocation drivers for Shared Management Costs.

12.2.1 Activity Based Costing (ABC) Survey

TasNetworks employs Activity Based Costing (ABC) surveys as a basis to allocate the residual pool of shared management costs that are not able to be directly allocated to a service category.

The ABC surveys require leaders to provide an assessment of the effort of their teams in delivering services. This assessment will form the basis for allocating labour and other costs between the following:

- service category, e.g. transmission, distribution or other;
- operating or capital;
- regulatory service classifications e.g. standard control, prescribed, unregulated.

The ABC survey is completed by business leaders as part of the annual budget setting process and is reconciled quarterly to ensure the reasonableness of allocations.

The ABC survey is not practical for all groups, such as CEO, audit and Board, as there is not a direct link between the effort and services. These departments will be pooled together and form the pool of shared management costs to be allocated on the basis of using a causal driver allocation or weighted average.

12.2.2 Causal allocation driver

Where a department's costs can be allocated on the basis that a strong causal link exists between the cost and the service, it will be allocated on that basis. An example of this is the Transactional Services department which is allocated on the basis of the volume of transactions attributable to each service category.

12.2.3 Weighted Average

The weighted average approach applies to shared costs that cannot be allocated on a causal basis. The results of the causal allocation are used to allocate these remaining costs.

These costs are only allocated across operating service categories due to the nature of the costs being general business overheads and not attributable to delivering capital projects.

12.3 Capital Expenditure

Where possible capital expenditure is directly allocated to a service where there is a clear line of sight between the asset and the network type or service.

All system assets are attributed directly to the service category with the exception of those assets that meet the definition of a shared asset. The shared asset guideline will apply to those assets.

For non-system assets (e.g. IT systems, motor vehicles, and facilities) costs will be directly allocated to a service category where the asset is used primarily for that service. For assets that are used to provide distribution, transmission and other services the cost will be allocated on the forecast usage of each asset. In the absence of a causal estimate, the capital expenditure will be allocated between distribution, transmission and other services on the basis of total direct capital expenditure.

The portion of non-system assets that have been allocated to distribution and transmission services will then be allocated across the service classifications on the proportional basis of total direct capital expenditure.

Costs are then allocated between the services categories for transmission and distribution on a proportional basis of total direct expenditure, e.g. capital expenditure would be allocated to standard control on the basis of the total proportion of standard control capital expenditure to total direct costs for distribution services.

13 Overhead Capitalisation

TasNetworks capitalises overheads in accordance with applicable accounting standards to ensure the portion of overheads capitalised in the construction of assets is reasonable.

Works and Service Delivery Management Costs are recovered via capital works on the basis of labour hours.

For all other residual overheads, data and estimates captured from the ABC surveys will be used as the basis for determining the allocation of overheads to capital works. Total overhead are allocated to either capital or operating, and there is no double counting of overheads that are allocated between capital and operating, as the value of overheads attributable to each group will be reduced by the value of overheads capitalised relating to that group.

TasNetworks undertakes a review quarterly to ensure that the allocation of overheads is appropriate and will make any necessary reconciliation or adjusting entries for any under or over capitalisation. The need for such adjustments may result from differences between the forecast and actual results for the following:

- actual overheads compared to forecast;
- changes in ABC survey results from prior quarter;
- changes in labour hours compared to forecast; or
- changes in direct expenditure compared to forecast..

14 Compliance Monitoring and Assurance

As outlined in section 4 above, the General Manager Finance & Business Services is responsible for monitoring compliance with the CAM and AER Guidelines.

TasNetworks engages independent auditors to audit the annual statutory financial accounts and regulatory information notices. The independent auditors will provide assurance of TasNetworks compliance with the CAM and the AER Guidelines.

As part of the preparation of annual financial and regulatory accounts, the supporting work papers and activity based costing surveys will be provided to the auditors for their review. All information submitted to the AER through regulatory information notices is subject to external audit prior to submission.

Audit and/or expert opinions will be supplied to the AER where required by the Rules.

TasNetworks will further monitor its compliance with the CAM and the AER Guidelines through the undertaking of internal annual reviews of its cost allocation models, templates, work papers and management activity based costing surveys. This review is to be undertaken by the finance team.

14.1 Maintenance of an Audit Trail and Record Retention

14.1.1 Accounting records

TasNetworks records its costs in accounting records which are maintained in accordance with the requirements of the Corporations Act 2001. TasNetworks requires its accounting records to be maintained in a way that enables its directors to explain and verify costs and other entries recorded in TasNetworks' accounting records and how they have been derived from source data.

14.1.2 Working papers

When preparing reports for submission to the AER, TasNetworks will prepare supporting work papers and documentation that may be required by any guidelines published by the AER, in accordance with these principles and policies. These work papers and documents will be in sufficient detail to allow:

- the AER or an auditor to replicate the cost and asset allocation outcomes reported to the AER; and
- TasNetworks to demonstrate that it has complied with the requirements of the CAM, prepared in accordance with the AER Guidelines.

In particular, assets are recorded at regulatory values in a regulatory asset register which allows the regulatory asset base balance to be calculated at any given balance date and for movements in balances to be explained and reconciled.

14.1.3 Record retention

TasNetworks will maintain all source documents and records (timesheets / invoices), general ledger trial balances and transaction listings as well as cost allocation workings in accordance with generally accepted accounting practice, TasNetworks policy, approved accounting standards, applicable taxation requirements, the Corporations Act any other relevant legislative requirements.

15 Publication

Consistent with the requirements of the AER Guidelines and the Rules, a current copy of TasNetworks' CAM will be maintained and published on TasNetworks' website.

16 CAM Consistency

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

TasNetworks commits to apply the CAM consistently each year.

17 Historical Comparability

Historical accounts prepared in accordance with previous Cost Allocation Methodology and Cost Allocation Method will be comparable. The principal differences between this and previous Cost Allocation Methodology and Cost Allocation Method of the legacy businesses are the change in organisational structure to reflect the structure of TasNetworks and the allocation of indirect (shared) costs between categories of distribution, transmission and other services. The reduction in overhead allocation to the categories of service has been achieved as a result of synergies and efficiencies from the merged network business and creation of TasNetworks, as opposed to changes in the cost allocation methodologies.

To the extent it has been possible, TasNetworks has ensured that the CAM complies with the allocation principles of the previous approved Cost Allocation Methodology and Cost Allocation Method. TasNetworks therefore does not expect the proposed CAM to produce a materially different allocation to the approved cost allocation methodologies. As noted in the covering submission, to assist the AER in understanding the proposed methodology, the proposed methodology is supported by a spreadsheet model.

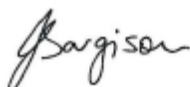
18 Directors Statement

On behalf of the board of Tasmanian Networks Pty Ltd, we confirm that:

- this document “TasNetworks’ Transmission Cost Allocation Methodology and Distribution Cost Allocation Method” dated June 2015 sets out TasNetworks’ Cost Allocation Methodology which TasNetworks is required to prepare and submit to the AER for approval in accordance with clause 6A.19 of the Rules; and TasNetworks’ Cost Allocation Method which TasNetworks is required to prepare and submit to the AER for approval in accordance with clause 6.15 of the Rules; and
- TasNetworks intends to comply with the Cost Allocation Methodology.

We also note that clause 3.2(10) of the AER’s Transmission Cost Allocation Guidelines requires two directors of TasNetworks to confirm that the information contained in the Cost Allocation Methodology is accurate. TasNetworks’ Board notes that it is not in general terms feasible to give an opinion on whether a methodology is accurate in isolation from and in advance of the application of that methodology to future submissions. However, TasNetworks confirms its intention to provide appropriate directors’ responsibility statements as may be required by the AER Guidelines, regarding the preparation of information and submissions that the AER requires to be prepared using this Cost Allocation Methodology.

For and on behalf of the board of Tasmanian Networks Pty Ltd



Director

15 June 2015

Date



Director

16 June 2015

Date

Appendix 1 - Allocators used for Shared Management Costs

The allocators utilised to allocate Shared Management Costs that are subject to allocation to the following services are shown in the table below:

Distribution services

- Standard Control
- Alternative Control
- Negotiated
- Unclassified

Transmission Services

- Prescribed
- Negotiated
- Non-Regulated

Table 3: Allocators used for Shared Management Costs

Cost subject to allocation	Description	Basis of allocation cost driver
Office of the Chief Executive Officer and Board of Directors	Costs of the office of the CEO and Board of Directors	Weighted average
Company Secretary	Secretariat support	Weighted Average
General Counsel	Legal support	Allocated on the basis of ABC surveys using estimated staff effort
Office of CFO	Costs of the office of the Chief Financial Officer	Weighted average
Financial Analysis & Reporting	Management accounting functions including performance reporting, budgeting and forecasting , regulatory reporting and financial analysis	Weighted average
Transactional Services	Accounts payable and account receivable	Volume of transactions attributable to each service
Financial Accounting & Taxation	Statutory reporting, financial and asset accounting	Weighted average
Financial Modelling	Regulatory and financial modelling and analysis	Allocated on the basis of ABC surveys using estimated staff effort
Contracts & Tendering	Management of contractual relations with supplier of goods and services	Allocated on the basis of the dollar value of contracts relating to each service category

Cost subject to allocation	Description	Basis of allocation cost driver
Information Management	Management and storage of information records	Allocated on the basis of ABC surveys using estimated staff effort
Facilities Management	Facility services for the operation and maintenance of all owned and leased sites occupied by TasNetworks employees	Allocated on the basis of ABC surveys using estimated staff effort
Compliance & Risk	Internal audit functions, risk management and compliance functions	Allocated on the basis of ABC surveys using estimated staff effort where a line of sight exists between cost and service, with the balance allocated on weighted average Insurance premiums are allocated on the basis of asset values
Information Technology	Provision and management of IT services and applications	Allocated to departments on the basis of applicable causal drivers including IT applications, PCs and mobile devices.
Strategy & Stakeholder Relations	Corporate strategy, business performance, strategic risk, economic regulation, pricing strategy and frameworks, market reform activities, external and internal communications, brand strategy, government and shareholder relations, and stakeholder engagement	Allocated on the basis of ABC surveys using estimated staff effort
People & Performance	HR strategy, change management, HR policies, industrial relations, recruitment, performance management systems, learning and development, HR advice and support, and payroll and timekeeping.	Allocated on the basis of FTE head count
Strategic Asset Management	Management of asset strategy and planning, network analysis and planning	Allocated on the basis of ABC surveys using estimated staff effort

Cost subject to allocation	Description	Basis of allocation cost driver
Customer Engagement & Network Operations	Management of network operations, large customer and market relationships, retailer management, the Customer Contact Centre, billing enquiries and dispute resolution, and telecommunications asset, network and customer management	Allocated on the basis of ABC surveys using estimated staff effort