



# Cost Allocation Method

January 2020

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**Version number: 3**

### Version history and date of issue

Section 3.2(a)(1) of the Australian Energy Regulator's Cost Allocation Guidelines requires that this Cost Allocation Method include a version number and date of issue. This is detailed in the following table.

Version number	Date of issue
1	June 2010
2	October 2014
3	January 2020

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# 1 Introduction

United Energy Distribution Limited (United Energy) holds one electricity distribution licence in Victoria and distributes electricity throughout east and south-east Melbourne and the Mornington Peninsula.

The primary purpose of United Energy is the distribution of electricity in its distribution supply areas as determined by its licence.

## **Background**

The Australian Energy Regulator (AER) has published Victorian specific Cost Allocation Guidelines titled “Victorian Electricity Distribution Network Service Providers Cost Allocation Guidelines”, June 2008 (CAG).

This CAM has been prepared in accordance with the requirements of the National Electricity Rules (NER) and the CAG.

## **Date of commencement**

This CAM will commence on 1 July 2021, unless the AER sets a different date in accordance with section 4.1(d) of the CAG, in which case it will commence on the date set by the AER.

This CAM will remain in force until United Energy and the AER agree that it will cease or that it will be replaced.

## 2 Nature, scope and purpose of the CAM

This CAM gives effect to, and is consistent with, the cost allocation principles and the CAG.

Specifically this CAM:

- attributes costs directly to, or allocates costs between, categories of distribution services on the substance of the underlying transaction or event, rather than the legal form
- only directly attributes costs to a particular category of distribution service if those costs are directly attributable to that service
- allocates shared costs between categories of distribution services using appropriate causal allocators
- does not allocate the same cost more than once
- ensures that the detailed principles, policies and approach used to attribute costs directly to, or allocate costs between, categories of distribution services are consistent with the applicable ring-fencing guidelines
- confirms that United Energy will not reattribute or reallocate costs from a distribution service to another service during the course of a regulatory control period.

The purpose of this CAM is to document how United Energy will attribute costs or allocate costs between different categories of distribution service for the purposes of:

- forecasting operating expenditure in accordance with clause 6.5.6 of the NER
- forecasting capital expenditure in accordance with clause 6.5.7 of the NER
- annual statements in accordance with any regulatory information notice (RIN).

United Energy will publish its approved CAM on its website.

# 3 Application and maintenance of the CAM

## **Accountabilities and responsibilities**

United Energy is committed to applying the detailed principles and policies described in this CAM as the basis for directly attributing costs to, or allocating costs between, categories of distribution services provided by United Energy.

Responsibility for this commitment principally rests with United Energy's chief financial officer.

The day-to-day responsibility for the CAM, including updating, maintaining, applying, internally monitoring and reporting on its application, including ensuring compliance with the CAG, is the responsibility of the corporate finance group who report to the chief financial officer.

## **Compliance monitoring**

United Energy monitors compliance with the CAM and other regulatory requirements through:

- United Energy's Audit and Risk Management Committee approval of prepared RIN information which will seek assurance that appropriate governance processes and due diligence frameworks are in place
- engaging external auditors to audit its statutory financial statements and RINs, including basis of preparation, which are derived from the application of the CAM
- signed management representation letters for external auditors confirming that information has been presented fairly in accordance with all regulatory requirements
- presentations to general managers of prepared regulatory information and general manager internal sign-off of RIN information
- manager review of financial information prepared by their staff and of all relevant basis of preparations.

## **Record keeping**

United Energy's SAP system and the information provided to United Energy by service providers, together provide the capability to record and report all financial information based on the CAM principles and policies for both statutory and regulatory purposes, including the information required by section 5.2 of the CAG.

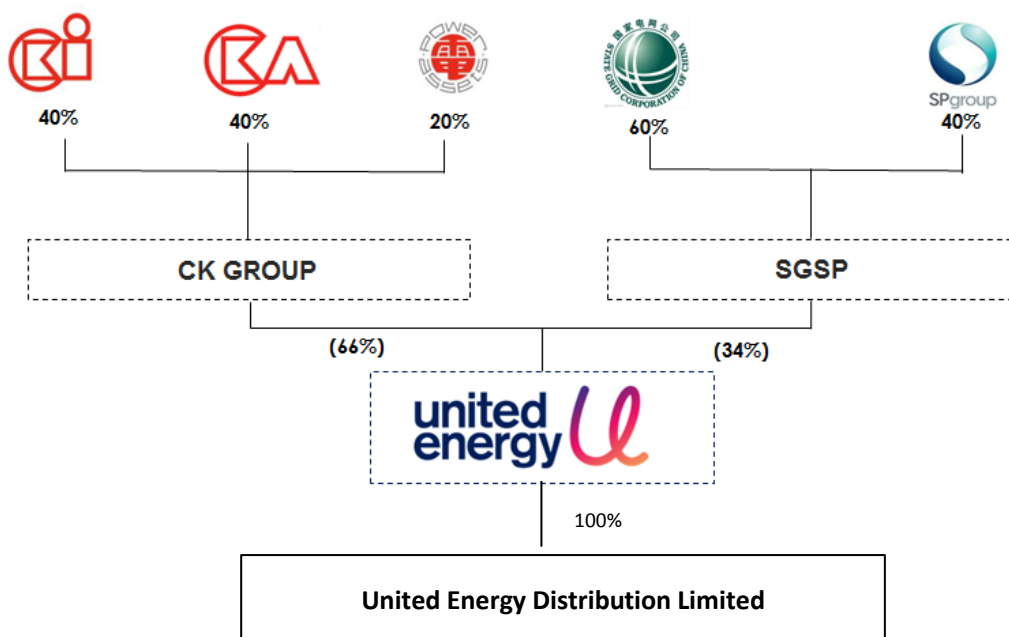
Outputs from this system include the standard suite of financial reports such as trial balances, general ledger, profit and loss statements and numerous other views.

# 4 Corporate structure

United Energy Distribution Limited is a wholly owned subsidiary of United Energy Distribution Holdings Pty Ltd. Cheung Kong Infrastructure Ltd (CKI) own 66 per cent of United Energy Distribution Holdings Pty Ltd and the remaining 34 percent is owned by SGSP (Australia) Assets Pty Ltd (SGSP).

The corporate structure United Energy is shown below.

Figure 1 United Energy's corporate structure

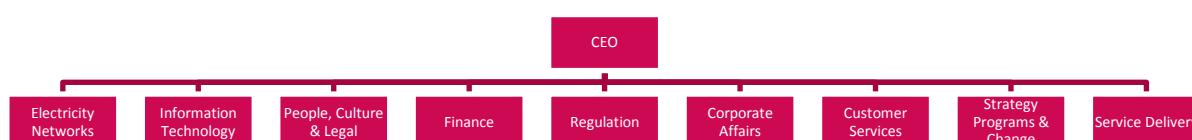


# 5 Operating structure

From an operational perspective, United Energy is structured on the basis of business operation units. A brief summary of these business operation units is provided below.

United Energy's business operation units are overseen and managed by the chief executive officer (CEO) and the executive management team which comprises general managers of business units.

Figure 2 United Energy's Operating Structure



**Electricity Networks** is responsible for the provision of network asset inspection and maintenance, network asset strategy and performance, network control and operations, network customer projects, network engineering, network safety, environment and compliance and regional asset management.

**Information Technology** is responsible for the provision of IT services relating to the provision of hardware, systems, applications and security for the network.

**People, Culture & Legal** is responsible for the provision of company secretary, legal and corporate human resource functions.

**Finance** is responsible for the provision of financial accounting, management accounting, taxation, treasury and risk, financial planning and analysis and corporate risk and property services.

Regulation is responsible for the provision of network regulation, pricing and compliance.

**Corporate Affairs** is responsible for company reputation management, stakeholder engagement, marketing and management of corporate website.

**Customer Services** is responsible for the provision of business management, call centre, customer response, meter data management, billing, retailer and customer relations.

**Strategy Programs & Change** is responsible for supporting the business to deliver strategic projects, streamline operations and plan for the future.

**Service Delivery** optimises the delivery of services to United Energy.

# 6 Categories of distribution services

United Energy's categories of distribution services are:

- standard control services
- alternative control services
- unregulated distribution services.

The detail of the distribution services provided in each category of distribution service are contained the relevant AER final determination.

# 7 Types of persons to whom distribution services are provided

United Energy provides its distribution services to:

## **Electricity retailers**

Retailers purchase wholesale energy that is transported through the transmission system, and United Energy's distribution system, to end-use customers. United Energy provides distribution use of system services to competing electricity retailers operating in the Victorian market. United Energy also provides metering services to retailers for customers using less than 160 MWh pa.

## **End-use customers**

United Energy provides a range of fee based and quoted services to premises in its distribution area.

## **Other**

United Energy provides a range of connection services, street lighting services, quoted services and fee based services to a number of other parties including registered electrical contractors, builders, developers, public lighting authorities including local councils and VicRoads.

# 8 Cost allocation principles and policies

## 8.1 Overview

### Accounting system

United Energy's integrated business management system (SAP system) is used to collect and report its costs and revenues. United Energy's chart of accounts classifies all costs and revenues by general ledger account numbers which map to reporting categories on the balance sheet and profit and loss statement. Each cost or revenue transaction is also assigned to a profit centre. Each cost item is also assigned a material code and in some cases an activity type.

Charges from third party service providers are usually broken down to a level that allows the attribution of costs to categories of distribution services.

### Directly attributing costs to categories of distribution services

The SAP system and third party service provider break-down of charges enables most costs to be directly attributed to a category of distribution service. This CAM details the costs that are directly attributed to a category of distribution service. The records maintained in the SAP system, the processes for inputting records into the SAP system can be reviewed. The basis of directly attributing costs can therefore be readily verified by an independent third party and the outcome can be replicated by the AER.

### Allocation between categories of distribution service

The remaining distribution services costs in the SAP system are allocated between categories of distribution service using automated systems or excel models. This CAM details the costs that are shared between categories of distribution service. The systems and excel models are capable of being reviewed. The basis of allocating costs can therefore be readily verified by an independent third party.

### No double counting of shared costs

No costs are double counted. Both directly attributed and shared costs are sourced from the SAP system. The records maintained in the SAP system, and the processes for inputting records into the SAP system, are capable of being reviewed. The requirement not to double count shared costs can therefore be readily verified by an independent third party.

### Key regulatory capitalisation policies

- The following costs are not capitalised for regulatory purposes:
- assets that don't provide future economic benefit for longer than 12 months
- indirect (corporate) overheads
- minor repairs resulting from asset failure and identified defects that could result in an imminent asset failure (if not repaired)
- asset inspection costs
- pole treatment costs
- components of a solution that are cloud based, and paid for on a 'pay as you go' basis
- training
- lease costs

Network overhead costs, attributable to the function of preparing an asset ready for use or of maintaining an asset, are assigned to direct capital and maintenance costs, and hence a portion of network costs are capitalised.

Customer contributions have been accounted for as a reduction to the carrying value of distribution assets.

Rebates paid by United Energy for gifted assets are treated as an increase to the carrying value of distribution assets.

**Independent external audit**

United Energy will engage an independent external auditor to provide assurance that it has allocated its costs in accordance with its approved CAM.

## 8.2 Treatment of directly attributable costs

The manner in which costs are directly attributed to a category of distribution service is described below.

Cost item	Nature and characteristics that associate cost item uniquely with a category of distribution service	Category of distribution service	Record
Labour	Labour costs are assigned to work orders by way of employee timesheets being entered into SAP, with each employee being associated with a labour rate. Labour rates are specific to job types. Labour rates include normal and overtime salaries, payroll on-costs, and employee/industry allowances. Payroll on-costs include public holidays, leave, superannuation and payroll tax. Labour rates also recover employee time spent on training, attendance at general and safety meetings, and time to perform administrative duties. They may also include allowance for miscellaneous costs such as mobile phone charges, clothing, safety equipment, direct supervision and support costs. Average hourly rates for heavy fleet, travel and accommodation are also incorporated into the labour rates.	Standard control Alternative control Unregulated	SAP system
Materials	Materials are directly attributed to work orders at cost. Materials costs include an on-cost to recover the cost of purchasing, warehousing and delivery of materials held in stores.	Standard control Alternative control Unregulated	SAP system
Services	Service costs are directly attributed to projects or allocated as an overhead. Service costs relate to services provided by external parties, e.g. field service provision, distribution licence fee, insurance, consultancies etc.	Standard control Alternative control Unregulated	SAP system and letter from relevant service provider where costs are bundled into a fee
Network overheads	Overhead rates are applied by the SAP system to directly attributable costs for network, system control and fleet and property labour and service costs which are, in accordance with United Energy's statutory accounting policies, attributable to the function of preparing an asset ready for use or of maintaining an asset.	Standard control Alternative control Unregulated	SAP system

Table 1: Costs which are directly attributable to a category of distribution service

The records maintained in SAP are capable of being audited. The basis of direct attribution can therefore be audited or otherwise verified by a third party.

### 8.3 Treatment of shared costs

Shared costs are defined as those cost that cannot be directly attributed to the provision of a particular category of distribution services but which are allocated between different categories of distribution services. This definition therefore covers any costs that do not fall within the CAG definition of 'directly attributable' costs, which are defined as follows: 'An item is directly attributable or directly attributed to an object such as a business segment of a DNSP, if it is wholly and exclusively associated with that segment.'

Shared costs are costs which are shared between particular categories of distribution services, being standard control services, negotiated services and unregulated distribution services.

#### **Costs shared between categories of distribution services**

Table 2 below sets out the information required by section 2.2.1(b)(2) for each shared cost item. United Energy confirms that the services listed in Table 2 below comprise an exhaustive list of services which are shared between distribution services as at the time of preparing this CAM.

The nature of each cost item	Categories of distribution services between which cost item is allocated	The nature of the allocator used to allocate the costs item	Reason for selecting that allocator – why is it the most appropriate allocator	Whether the allocator will remain the same over the regulatory control period	Details of the numeric quantity or percentage of the allocator (based on 2008 values and are recalculated annually)	How the numeric quantity or percentage has been calculated	Where the data for determining the numeric quantity or percentage has been sourced	How and where records will be maintained for auditing purposes
CEO, company secretary, finance, people, culture & legal, corporate affairs, IT support, audit services	Standard control and alternative control services	Allocation based on direct expenditure split <sup>1</sup>	Reflective of the costs incurred in providing different categories of distribution services	Yes	Recalculated annually	Based on expenditure	SAP system	SAP system
Meter data services	Standard control and alternative control services	Based on 2 factor allocation of RAB and revenues	The majority of costs relate to labour and associated costs	Yes	Recalculated annually	Based on 2 factor allocation of RAB and revenues	SAP system	SAP system
AMI communications network	Standard control and alternative control services	Volume of data communicated for each category of distribution service	Volume of data is a proxy for the value of AMI data to each service	Yes	Fixed at 88% standard control and 12% alternative control	Based on data volume	SAP system	SAP system

<sup>1</sup> Direct expenditure is network capital expenditure and network maintenance expenditure.

Billing and revenue collection	Standard control and alternative control services	Allocation based on direct expenditure split	Reflective of the costs incurred in providing different categories of distribution services	Yes	Recalculated annually	Based on expenditure	SAP system	SAP system
Customer service	Standard control and alternative control services	Allocation based on direct expenditure split	Reflective of the costs incurred in providing different categories of distribution services	Yes	Recalculated annually	Based on expenditure	SAP system	SAP system
Regulatory services	Standard control and alternative control metering services	Allocation based on revenue split	Reflective of the costs incurred in providing different categories of distribution services	Yes	Recalculated annually	Based on revenue	SAP system	SAP system

**Table 2: Costs that are shared between different categories of distribution services**

# 9 Compliance with the CAG

United Energy confirms that:

- The application of this CAM will ensure that it shall attribute costs directly to, or allocate costs between categories of Distribution Services on the substance of the underlying transaction or event, rather than the legal form, in accordance with the requirements of section 2.2.2 of the CAG.
- The application of this CAM will ensure that only costs that are directly attributable to the provision of a particular category of Distribution Services will be directly attributed to those services, in accordance with the requirements of section 2.2.3 of the CAG.
- The application of this CAM will ensure that shared costs are allocated between categories of Distribution Services using an appropriate causal allocator, in accordance with the requirements of section 2.2.4 of the CAG.
- The application of this CAM will ensure that it does not allocate the same cost more than once, in accordance with the requirements of section 2.2.5 of the CAG.
- The detailed principles, policies and approach that it will use to attribute costs directly to, or allocate costs between, categories of Distribution Services are consistent with clause 6.17 of the Rules, as is required by section 2.2.6 of the CAG.
- The application of this CAM will ensure that it does not reattribute or reallocate costs to another service during the course of a regulatory control period, as is required by section 2.2.7 of the CAG.