

Attachment 2.2

Core Operations Cost Allocation
Methodology

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1. Background

Power and Water Corporation (Power and Water) is the Northern Territory (NT) government owned corporation that is responsible for the electricity network, system and market operation and the provision of water and sewerage services across the NT.

Power and Water holds a System Control Licence to conduct electricity system control and market operation functions.¹ The functions Power and Water perform under the System Control Licence are carried out in our Core Operations line of business and the customer chargers for these services are independently regulated by the NT Utilities Commission.

Power and Water's Power Services line of business carries out its obligations as the Network Service Provider (NSP) in the NT². It is responsible for planning, building and maintaining reliable electricity networks to transport and meter electricity between electricity generators and consumers. Some of these functions are provided by the Core Operations business unit, including generation connection services, metering services, crew dispatch and afterhours fault calls.

These activities are not regulated by the Utilities Commission and are considered to be 'unregulated' services in the context of this paper. Some of the functions are regulated by the Australian Energy Regulator (AER) and this Cost Allocation Method (CAM) ensures that indirect costs are appropriately allocated to the relevant regulated entity, which means customers do not pay for the same costs under two regulated charges.

The activities Power and Water undertakes as the NSP are independently regulated by the AER and the costs of those activities are funded through regulated network tariffs. As part of the AER's regulatory process to set the regulated network tariffs, the AER approved a Cost Allocation Method (AER Approved CAM)³ in accordance the National Electricity Rules (the Rules)⁴ and it's Cost Allocation Guidelines.⁵

The AER Approved CAM explains how Power and Water allocates indirect costs to 'distribution' services in two stages:

- The first allocation is to allocate indirect costs to distribution services, which implicitly allocates costs to Power and Water's non-distribution services. Non-distribution services include services such as water, sewerage, system control, market operator and other services.
- The second stage of the allocation is to allocate indirect costs within the distribution services such as standard and alternative control services.

This Core Operations' Cost Allocation Methodology (Core Ops CAM) adopts the same approach, however it allocates indirect costs to 'regulated system control' and 'regulated market operator' services instead of 'distribution' services. This first stage of allocation is the same as the AER Approved CAM. The second stage of allocation uses the same allocation drivers as the AER Approved CAM but is applied to Core Operations' indirect costs and services. This approach ensures indirect costs are only allocated once and there is no double counting of the same costs.

¹ Power and Water as the licensed system controller, carries out system control and market operator functions in accordance with section 38 of the *Electricity Reform Act 2000* (the Act) and the System Control Technical Code (SCTC).

² *National Electricity (NT)(National Uniform Legislation) Act 2015* (as in force at 2 July 2015).

³ [AER Approved CAM](#)

⁴ National Electricity Rules (Northern Territory).

⁵ Australian Energy Regulator, Electricity distribution network service providers: Cost allocation guidelines, June 2008.

2. Purpose and scope

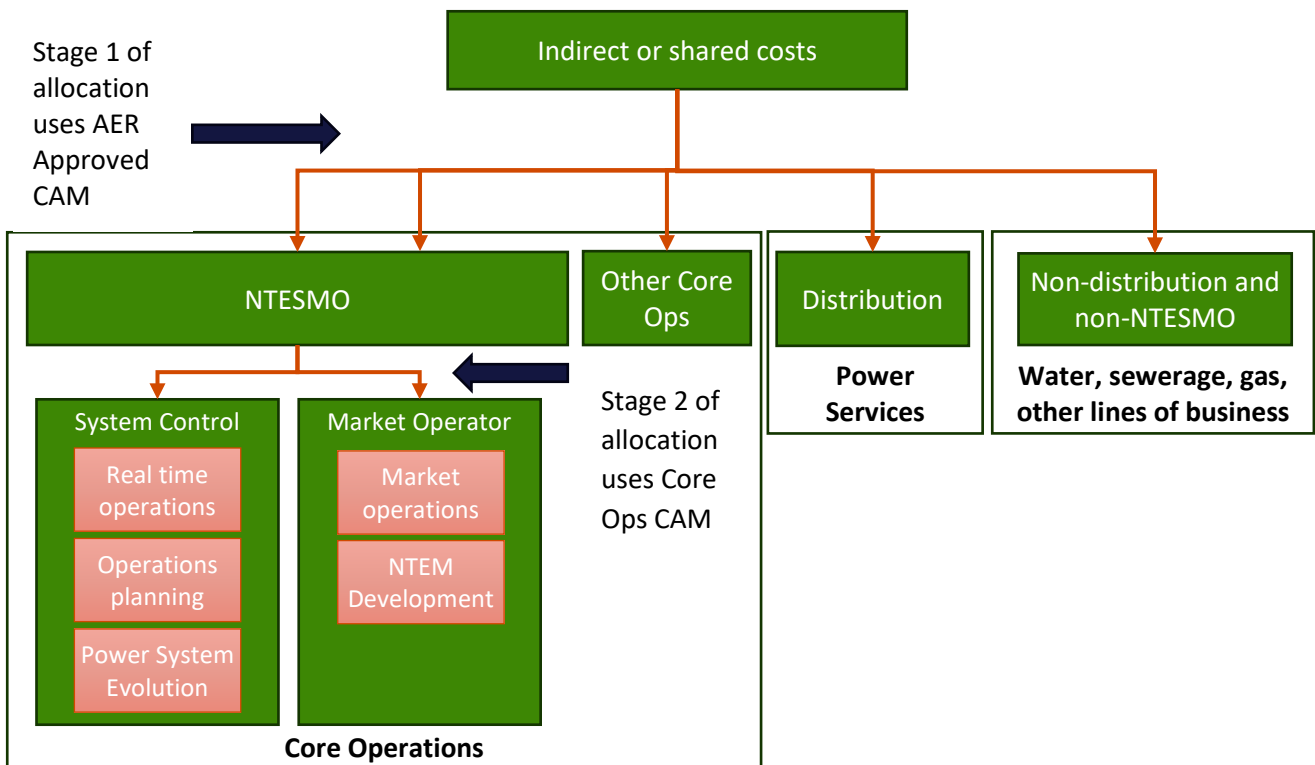
The purpose of the Core Ops CAM is to explain how the Core Operations business unit’s indirect costs will be allocated for the purposes of calculating the system control and market operator charges. It should be noted that the Core Ops CAM has not been used to allocate costs to and within Core Operations for the purposes of preparing financial statements. It focuses on attributing an appropriate amount of shared costs to regulated services. For further detail please refer to the AER Approved CAM.

This document sets out the principles and policies for:

- attributing costs directly, and allocating shared costs, to NT Electricity System and Market Operator (NTESMO) services
- attributing costs directly to, and allocating shared costs between, the categories of NTESMO services.

The Core Ops CAM applies to the allocation of all corporate overhead costs and is aligned to the AER Approved CAM. This Core Ops CAM, in conjunction with the AER Approved CAM, is used by the Core Operations business unit for the preparation of capital and operating expenditure forecasts for NTESMO’s Regulatory Proposals to be submitted to Utilities Commission. See Figure 1 below.

Figure 1: Illustration of Core Ops CAM



3. Corporate and operational structure

Corporate structure

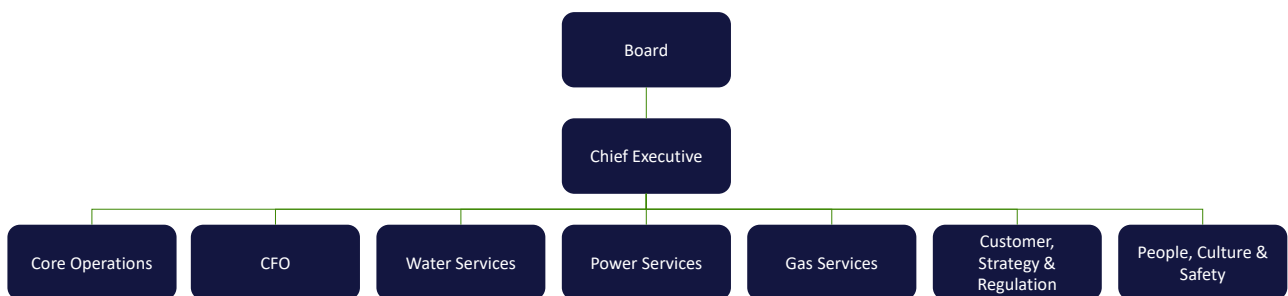
Power and Water is a multi-utility that provides electricity distribution services, electricity system control and market operation services, water services and wastewater services to the main population centres of the NT. Power and Water also supplies gas to wholesale customers including generators.

The delivery of electricity, water and sewerage services in remote communities is provided through Power and Water's wholly owned subsidiary Indigenous Essential Services Pty Ltd (IES), which is a not-for-profit business. These services are provided under a 'fee for service' agreement with the Department of Community Services.

Power and Water's executive and business units have been structured to provide these services. The current PWC executive organisational structure is shown in Figure 2.

Administrative support functions, such as financial services, billing and human resource management, are provided by the corporate business units to all Power and Water operational business units, with costs being allocated through the AER Approved CAM allocation process.

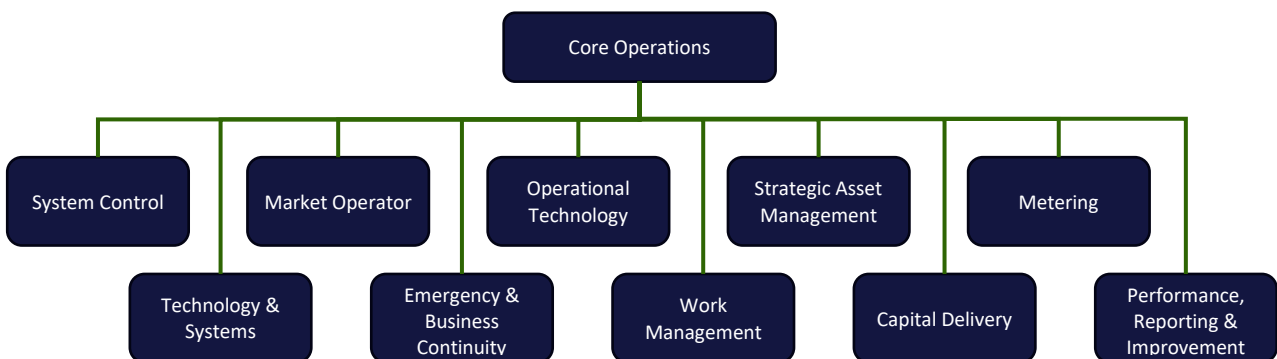
Figure 2 PWC's executive organisational structure (as at September 2023)



Operational structure

The structure of the Core Operations business unit is shown in Figure 3. This section describes explains how the business unit contributes to the provision of regulated and unregulated services provided by Power and Water.

Figure 2: Core Operations business unit structure (as at September 2023)



Core Operations performs operational functions across electricity and water, providing consistency through a common approach in the areas of Strategic Asset Management, Emergency Management, Major Capital Delivery, Operational Technology, Works Planning and Scheduling and Metering as well as delivering synergies and efficiencies for services in System Control and Market Operator.

The regulated NTESMO activities are carried out in the System Control and Market Operator related costs centres. Core Operations also has other unrelated functions which are also allocated a portion of the indirect costs. Core Operations' cost centres are detailed below.

System Control

System Control's primary function is overseeing the safe, secure and reliable operation of the NT's power systems. It has statutory obligations set out in the System Control Licence issued by the Utilities Commission in monitoring and controlling the regulated power systems, as well as functions for other Power and Water business units the cost of providing these services funded internally with Service Level Agreements. For example, the expense for system control tasks required by the regulated NSP (the Power Services business unit) is effectively an expense borne by the Power Services business unit.

Market Operator

The Market Operator team supports the day to day operation of market settlement, system participant registration and publication of market prices and other wholesale trading data. This team also provides support to the NT Government in the amendment of the regulatory framework and facilitates the implementation of changes to rules, procedures and systems related. The Market Operator also provides unregulated functions for the NSP with the provision of historical metering data to retailers and customers. It also provides unregulated activities to external parties for settlement services. The expenses related to these activities is recovered from the other entities.

Other functions within Core Operations include:

- Metering Strategy
- Strategic Asset Management
- Emergency Management and Business Continuity
- Performance, Reporting and Improvement
- Operational Technology
- Information, Technology and Communication
- Works Management
- Capital Delivery

4. Principles and policies

Under the AER's Cost Allocation Guidelines, Power and Water is required to include within the CAM details of the principles and policies used for attributing costs directly to, or allocating costs between, categories of services. These principles and policies must meet the requirements of clause 2.2 of the AER Cost Allocation Guidelines.

The Core Ops CAM uses the same principles as the AER Approved CAM. In summary, Power and Water allocates indirect costs to and between its Core Operations services:

- consistently with the principles and policies in AER's the Cost Allocation Guidelines. This is discussed in the AER Approved CAM
- ensuring costs are allocated based on the substance of the cost/transaction rather than the legal form
- so that costs that are only incurred for the provision of a particular category of service are directly attributed to that category of service
- ensuring costs incurred to provide several categories of services will be indirectly allocated between those categories using an appropriate causal allocator where possible to do so
- ensuring costs incurred to provide several categories of services will be indirectly allocated between those categories using a non-causal allocator, only when it is not possible to use a casual allocator
- the same cost has not been allocated more than once and only 100% of the cost is allocated.

5. Systems to record costs

Power and Water's Financial Management System (FMS), Oracle, is used to capture direct costs and indirect costs. The Asset Management System (AMS) is also used to capture direct costs. The costs captured in the AMS are reflected in corresponding account in the general ledger in the FMS.

Core Operations has the following categories of costs:

- Direct costs, including capex and opex.
- Indirect costs, including:
 - Core Ops Management costs
 - Corporate costs.

Power and Water's systems captures:

- Labour costs using timesheets and payroll journal entries in the general ledger.
- Contractor, other and some materials' costs through invoices.
- Some materials through its stores' records.

6. Attribution and allocation of costs

Direct costs

Consistent with the AER Approved CAM, direct costs for Core Operations are those costs that can be directly attributed to the provision of a particular category of distribution services as noted previously in table 1.

Core Operations uses a work order approach in the AMS. For capex projects in particular, work orders are consolidated into projects. Where possible work orders and projects are allocated to a specific service and then costs booked against those work orders are considered direct costs.

Table 1: Attribution of Direct Costs Core Operations

Expense Category	Description
Direct labour	Costs for labour used for the provision of a particular category of service that are not contractor costs
Direct materials	Costs for materials used for the provision of a particular category of service that are not contractor costs
Direct contractors	Costs resulting from services provided by external service providers
Direct others	Costs that are not in one of the other expense categories

Indirect costs

Core Operations has certain indirect costs that cannot be directly attributed to the provision of a particular type of service and which therefore need to be allocated between its services.

These shared costs are allocated indirectly between its different types of services using a two stage allocation process.

Stage 1 allocation

The first stage of allocation is to allocate indirect costs to the Core Operations services. This is done by the AER Approved CAM so the shared costs across Power and Water are allocated to the lines of business consistently without double counting. In other words, Power and Water's corporate costs are allocated to Core Operations, Power Services, Water Services, etc using the AER Approved CAM. The main costs allocated in this stage are the costs incurred within Power and Water's corporate business units, which support all of Power and Water's functions.

The allocation drivers for each type of cost are shown in the table below.

Table 2: Causal allocation drivers used in stage 1 of allocation

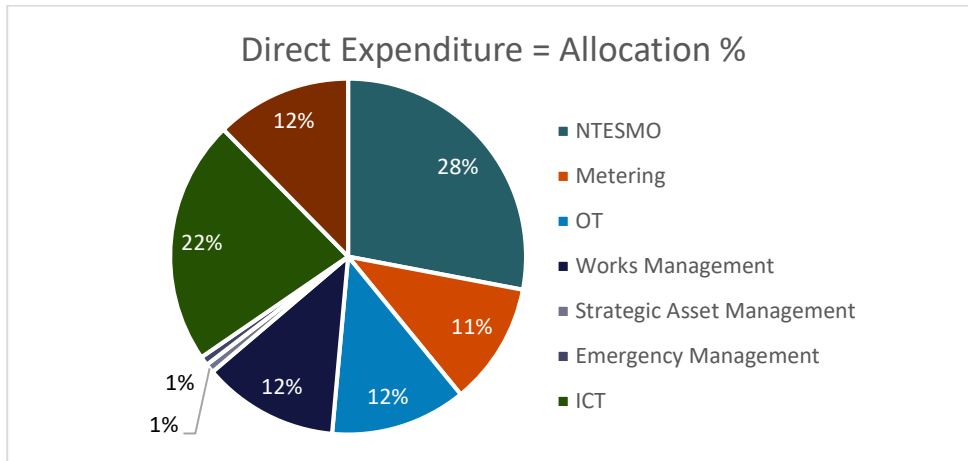
Cost Category	Cost Sub-category	Allocator	Justification
Customer and Billing		FTE and contractors	Causal relationship
Finance	General	FTE	Causal relationship
	Overdraft	Debt level	Causal relationship
	Accounts Payable	Invoice numbers	Causal relationship
IT	FMS GIS Maximo RMS	License numbers	Causal relationship
	Business Intelligence system Datamart system EDMS Internet administration Intranet administration Service desk Small systems administration	Hardware	Causal relationship
	BSIM administrations	FTE and contractors	Causal relationship
HR	Training	FTE and contractors	Causal relationship
	HR operations and employee relations	FTE	Causal relationship
Insurance	Workcover insurance	FTE	Causal relationship
	General insurance	Assets	Causal relationship
	Vehicle insurance	Vehicle numbers	Causal relationship
Other Corporate	Facilities Work, health and safety Risk, audit and compliance Sustainable energy Managing Director	FTE and contractors	Causal relationship
	Procurement Communications and marketing Board Executive Records Management	Revenue	Causal relationship
	General Counsel	Legal instructions	Causal relationship
	Design and diagnostic Ministerial and client relations Wholesale markets	Forecast share	Non-causal relationship – forecast shares in absence of causal allocator
	Environmental services	Environmental	Causal relationship
	Project Management Office	PMO	Causal
	Regions (Southern Administration) Strategy and Planning	Even	Non-causal
	Economics and Regulation	Time	Causal

At the completion of the stage 1 allocation process, carried out under the AER Approved CAM, corporate costs have been allocated to NTESMO and the other Core Operations services (Metering, OT, etc).

Stage 2 allocation

The second stage of allocation carried out under this CAM only allocates the remaining shared costs to the specific services within Core Operations services. These remaining costs are primarily for Core Operations management.

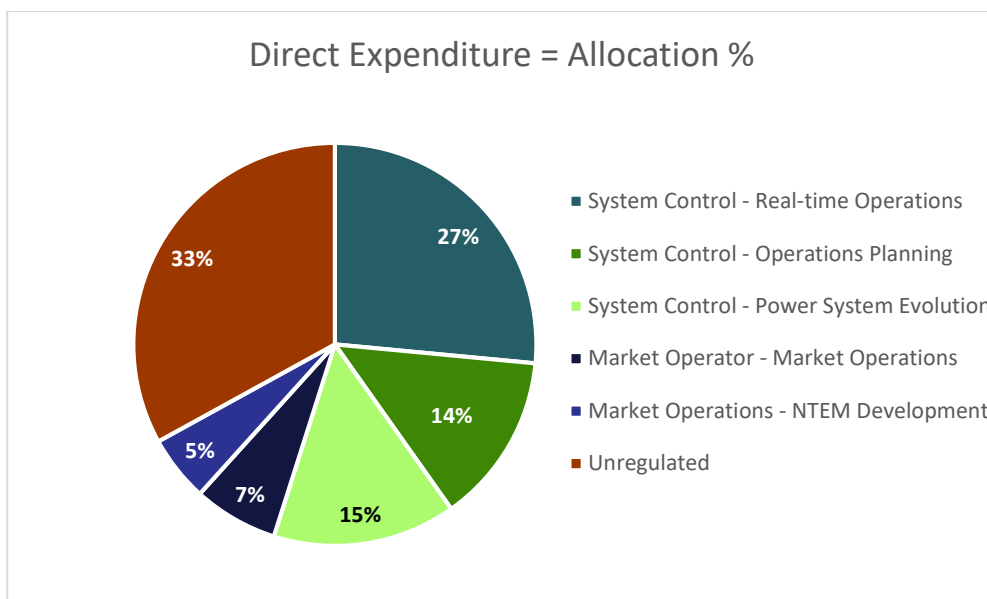
This Core Ops CAM uses direct expenditure as a driver for the second stage of allocation. For example, if a service within Core Operations receives 30% of the direct costs, then it is allocated 30% of the shared costs. The figure below provides an illustration of how direct expenditure proportions would determine the indirect allocation percentages.



** Illustrative purposes only*

Stage 3 allocation

The final stage relates to the further allocation of costs between the System Control and Market Operator sub-functions. For example breaking NTESMO corporate allocation into operations planning, real time operations, power system evolution, market operations and NTEM reform. As in stage 2, this stage of allocation relies on direct expenditure to determine the allocations. The figure below provides an illustration of how direct expenditure proportions would determine the indirect allocation percentages.



** Illustrative purposes only*

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NTESMO