



Power Networks

Cost Allocation Method (Public Version)

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Structure of this document

This Cost Allocation Method has been structured in the following way:

- Sections 1 to 4 Introduction and regulatory requirements;
- Section 5 Corporate cost allocations within Power and Water;
- Section 6 Cost allocations between Power and Water's operating business units;
- Section 7 Cost allocations within Power Networks;
- Section 8 Power Networks' cost allocations to Network Services;
- Section 9 Capital cost allocations;
- Section 10 Compliance; and
- Section 11 Confidential Attachments.

1 Introduction and regulatory requirements

Power and Water Corporation (Power and Water) is subject to the provisions of the NT Electricity Ring-fencing Code¹. This Code and the associated Guidelines require Power and Water to establish and maintain separate financial accounts and reports for Power Networks, System Control, Generation and Retail businesses.

The Utilities Commission (Commission) initially approved Power and Water's Cost Allocation Procedures in 12 November 2001 and subsequently extended that approval for an indefinite period.

In the 2014-19 Network Price Determination Framework and Approach Decision Paper, the Commission has decided to adopt those parts of Chapter 6 of the National Electricity Rules (Rules) as applied by the Australian Energy Regulator (AER) and the models and guidelines developed by the AER where they are not inconsistent with the NT Electricity (Third Party Access) Code (NT Access Code)². This includes the Rules provisions and AER guidelines on cost allocation.

1.1 Requirements of the Rules

Part F, clause 6.15 of the Rules sets out the requirements concerning cost allocation for Distribution Network Service Providers (DNSPs)³. Those requirements are paraphrased as:

- A duty for the DNSP to comply with an approved Cost Allocation Method;
- The principles on which the allocation of costs must be based;
- A requirement for the AER to issue Cost Allocation Guidelines;
- A requirement for the DNSP to prepare and submit a Cost Allocation Method for the approval of the AER.

The AER has issued Cost Allocation Guidelines for DNSPs, pursuant to clauses 6.2.8(a)(1) and 6.15.3 of the Rules⁴.

1.2 Requirements of the Regulatory Information Notice

The Commission's approach, outlined in the 2014-2019 Network Price Determination Framework and Approach Decision Paper, is to require Power Networks to "set out the detailed principles, policies and methodology used by PWC Networks to allocate costs

¹ Northern Territory Electricity Ring-fencing Code - Third Version, 1 January 2009.

² Utilities Commission, 2014-2019 Network Price Determination - Framework and Approach Decision Paper, November 2012, pg. 28.

³ AEMC, National Electricity Rules version 55 as at 7 March 2013.

⁴ AER, Electricity distribution network service providers - Cost allocation guidelines, June 2008.

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between the regulated network business and other PWC business and between the different categories of distribution services”⁵.

This draft Cost Allocation Method (CAM) for Power Networks has been prepared for the approval of the Commission, in a manner that contains the detailed principles, policies and methodology, having regard to the Rules requirements.

1.3 Network services

Power Networks is capable of providing the following network services (using the terminology of the Rules):

- ***Standard Control Services*** – the provision of network services, network connection services and metering services to mandated standards. These are termed regulated network access services in the NT Access Code;
- ***Alternative Control Services*** – are classified by the Commission under clause 72(3) of the NT Access Code and include network services, network connection services and metering services to standards that differ from those mandated, plus street lighting services and a range of miscellaneous services associated with the network; and
- ***Unregulated Services*** – are classified under clause 72(2)(a) of the NT Access Code and relate to the provision of services that are subject to effective competition.

This Cost Allocation Method sets out the basis upon which Power Networks allocates costs to these different classes of distribution services.

1.4 National Electricity Rules Cost Allocation Principles

Clause 6.15.2 of the Rules sets out the Cost Allocation Principles, as follows:

- (1) the detailed principles and policies used by a Distribution Network Service Provider to allocate costs between different categories of distribution services must be described in sufficient detail to enable the AER to replicate reported outcomes through the application of those principles and policies;
- (2) the allocation of costs must be determined according to the substance of a transaction or event rather than its legal form;
- (3) only the following costs may be allocated to a particular category of distribution services:
 - (i) costs which are directly attributable to the provision of those services;

⁵ Utilities Commission, 2014-2019 Network Price Determination - Framework and Approach Decision Paper, November 2012, pg. 75.

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- (ii) costs which are not directly attributable to the provision of those services but which are incurred in providing those services, in which case such costs must be allocated to the provision of those services using an appropriate allocator which should:
 - (A) except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and
 - (B) to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well accepted cost allocation method;
- (4) any cost allocation method which is used, the reasons for using that method and the numeric quantity (if any) of the chosen allocator must be clearly described;
- (5) the same cost must not be allocated more than once;
- (6) the principles, policies and approach used to allocate costs must be consistent with the Distribution Ring-Fencing Guidelines;
- (7) costs which have been allocated to a particular service cannot be reallocated to another service during the course of a regulatory control period.

In relation to Clause 6.15.2(6) above, it should be noted that the AER has not issued Distribution Ring Fencing Guidelines and that the NEM Distribution Network Service Providers at this stage remain subject to jurisdictional ring fencing requirements. The AER has commenced consultation on the matter and has indicated its intention to publish a draft Ring Fencing Guideline⁶. At the time of writing, this guideline has not been released. Clause 6.15.2(6) has therefore been taken to refer to the provisions of the Commission's Ring Fencing Guidelines issued pursuant to the NT Ring Fencing Code^{7,8}.

⁶ AER, Position paper - Electricity Distribution Ring-fencing Guidelines, September 2012.

⁷ Utilities Commission, Ring-Fencing Guidelines (version no. 1), 28 January 2009.

⁸ Utilities Commission, Northern Territory Electricity Ring-fencing Code - Third Version, 1 January 2009.

2 Overview of Power and Water

Power and Water is a multi-utility that provides:

- Electricity;
- Water; and
- Waste water services;

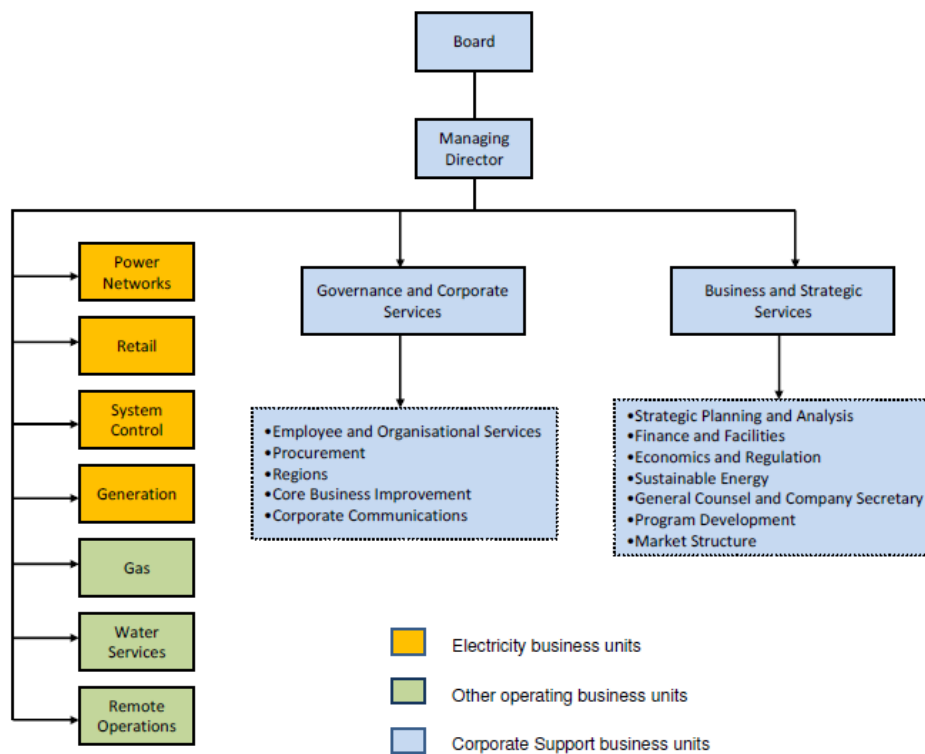
to the main population centres of the Northern Territory and to a total of 72 remote communities.

Power and Water’s executive has been structured to provide these services.

In 2012-13, Power and Water underwent an organisational restructure, affecting the corporate support business units. Also, an additional operating business unit has been included for corporate cost allocation purposes, Gas Supply Services. Previously these costs have been allocated to the Generation business unit, however the recent development of third party gas sales has resulted in the need for these costs and revenue to be separately accounted for.

The current Power and Water executive organisational structure is shown in Figure 1.

Figure 1 – Power and Water’s current executive organisational structure



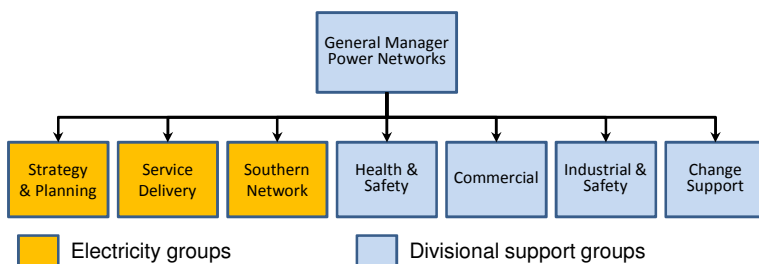
3 Overview of Power Networks

This document explains the cost allocation arrangements between:

- Power Networks Business Unit and other business units within Power and Water Corporation;
- Within the Power Networks business unit; and
- The services provided by Power Networks.

The executive level organisational structure of Power Networks is shown in Figure 2. Within Power Networks, there are four support groups and three electricity groups.

Figure 2 - Power Networks' executive level organisational structure



The Metering Services group, previously located within the Strategy & Planning group, has now been moved to the Service Delivery group within Power Networks. Metering Services provides metering and meter data services for both electricity and water customers. Metering Services group costs are allocated to the associated network services and to the Water Services business unit.

3.1 Services provided by Power Networks

The services provided by Power Networks fall into three categories, as follows.

Standard control services

Power Network's major role is to provide standard control network services, including:

- Maintaining the safety, reliability and quality of electricity delivered by the network in accordance with the Network Technical Code and good electricity industry practice;
- Planning and designing the network to meet the network capacity needs of electricity customers;
- Extending and upgrading the network in accordance with the Network Planning Criteria;
- Connecting customers to the network; and
- Acting as the meter data collector (meter reader) and meter data provider to retailers.

Alternative control services

Power Networks provides a range of alternative control services. These are either based on a schedule of standard fees or, for some services, individual quotation. The services classified as alternative control services include:

- Shared network services provided to customers at above standard or non standard levels;
- Dedicated connection services provided to customers at above standard or non standard levels;
- Providing above standard, non-standard or ancillary metering services and meter data services;
- Operating and maintaining the public lighting system; and
- A broad range of miscellaneous services associated with the network, such as temporary supply arrangements, load escorts, safety covers and cable location services.

Unregulated services

Power Networks is also able to provide some services that are subject to competition and therefore not regulated. For example, contestable networks engineering consulting services.

4 Cost allocation principles

Wherever feasible, Power and Water assigns the direct cost of services where they are provided between its business units. The costs so assigned may include a proportionate allocation of the corporate service costs, based on the value of the service and the budgeted expenditure of the business unit providing the service.

Where costs are allocated between business units, a causal basis has been chosen using the most appropriate allocator for the service concerned. In forming a judgement on an appropriate cost driver, the costs are allocated in a manner that:

- Is fair and reasonable;
- Ensures the substance of the underlying transactions and events are reported; and
- Is capable of certification by an auditor.

If a driver cannot be readily measured and applied without undue cost and effort, an alternative causal cost driver should be identified. Where no causal relationship can be established without undue cost and effort, cost may be allocated on a non-causal basis.

Immaterial items where a causal relationship cannot be established without undue cost and effort, may be allocated on a non-causal basis. The aggregate of all items subject to all non-causal bases of allocation must not have a material effect on the statements or reports.

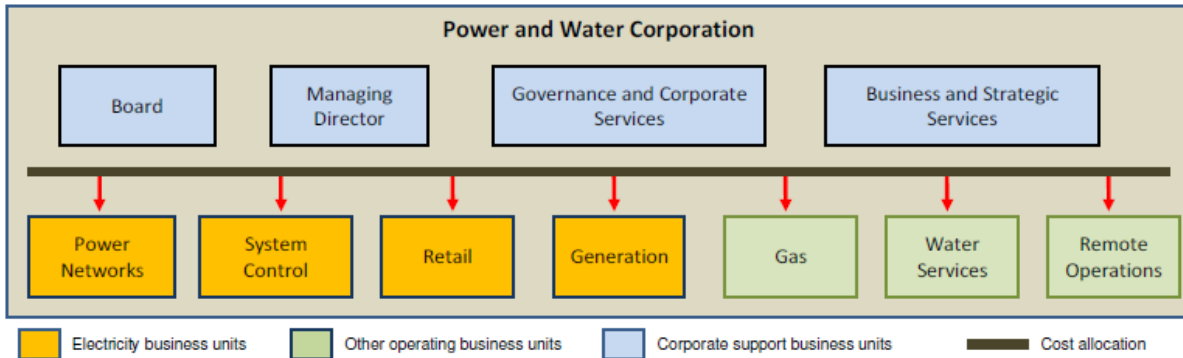
Those causal allocators used in relation to Power Networks include the following:

- Equal shares, where a service would otherwise need to be separately provided by a number of business units;
- A share based upon employee or user numbers, where the level of a service is proportionate to the number of personnel;
- A share based upon historic records of the frequency of events and their average cost, such as with call centre and system control costs; and
- A share based upon budgeted capital expenditure or asset values, where overall costs are proportionate to those amounts.

5 Corporate cost allocations within Power and Water

Figure 3 illustrates Power and Water’s cost allocation arrangements at the corporate level, to Power Networks and the other Power and Water operating business units.

Figure 3 – Interrelationship between the Power and Water business units



A range of corporate services is provided by the corporate support business units to the operating business units. The costs of the corporate support business units are recovered from the operating business units.

The allocation of corporate services costs to the operating business units is described in Table 1 on the following page.

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Table 1 – Corporate services cost allocations

Corporate Business Unit	Division	Group	Allocation method and rationale	
Board	Board	Board	Allocate costs evenly to each business unit except IES/ Remote Operations, as IES Pty Ltd has a separate Board	
Managing Director	Managing Director	Managing Director and Area Managers	Allocate costs evenly to each business unit as each would have this function separately as a stand alone company	
Business and Strategic Services	Executive	Executive	Allocated based on an average of the other functions within the business unit	
	Strategic Planning & Analysis	Strategic Planning & Analysis	Allocate costs evenly to each business unit as each would have this function separately as a stand alone company	
	Economics & Regulation	Economics & Regulation	Causal allocation based on RPEA staff allocation to business unit	
	Market Structure	Market Structure	Allocate costs evenly - Water, Sewerage, Gas and IES are excluded from this allocation as they would not be affected by any proposed market structure revisions	
	Sustainable Energy	Sustainable Energy	Causal allocation based on actual cost of projects	
	Finance and Facilities	Finance and Facilities	Causal allocation based on several drivers according to type of task including even spread as each business unit would have this function separately as a stand alone company, staff allocation to business unit, value of capital spend and number of invoices	
	General Counsel and Company Secretary	Administration	Administration	Allocate costs evenly to each business unit as each would have this function separately as a stand alone company
		Insurance	Insurance	Causal allocation based on average of total assets value and personnel costs
		Legal	Legal	Allocate costs evenly to each business unit as each would have this function separately as a stand alone company
		Risk, Quality, Audit Charges	Risk, Quality, Audit Charges	Allocate costs evenly to each business unit as each would have this function separately as a stand alone company
Program Development	Program Development	Causal allocation based on average of number of Capital projects and total value of Capital spend		
Governance and Corporate	Regions	Regions	Causal allocation based on staff numbers in Alice Springs and Yulara	

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Corporate Business Unit	Division	Group	Allocation method and rationale	
Services	Procurement	Procurement & Contract	Causal allocation based on number of purchase orders raised	
	Core Business Improvement Program	Core Business Improvement Program	Allocate costs based on Operational Expenditure less Energy, REC's and Internal Expenses	
	Employee & Organisational Services	Executive		Allocated based on an average of the other functions within the business unit in an attempt to align to complexity
		Employee Relations		Causal allocation based on employee numbers
		HR Operations		
		Workforce Capability		
		Training Unit		
		Health & Safety		Causal allocation based on level of risk and activity.
		Environment		Allocate costs evenly to each business unit except System Control and Retail. These business units have been excluded from this allocation as they would not require this function if they were stand alone companies
		Facilities & Administration		Causal allocation based on occupancy. For costs relating to Business Support occupancy, allocate these costs based on the average of all other Corporate allocations in order to attempt to align to the complexity of the business unit
		Corporate Communications		Causal allocation based on staff workload
		Cyclone & Emergency Management		Allocate costs evenly to each business unit as each would have this function separately as stand alone companies
		Application Administration		Causal allocation based on system users.
		Service Desk		Causal allocation based on logged jobs to the Service Centre.
		BSIM Asset Management Systems Charges		Causal allocation based on average of total assets value and Capital and R&M spend
Operations BSIM		Causal allocation based on system users.		
Datamart		Causal allocation based on headcount.		

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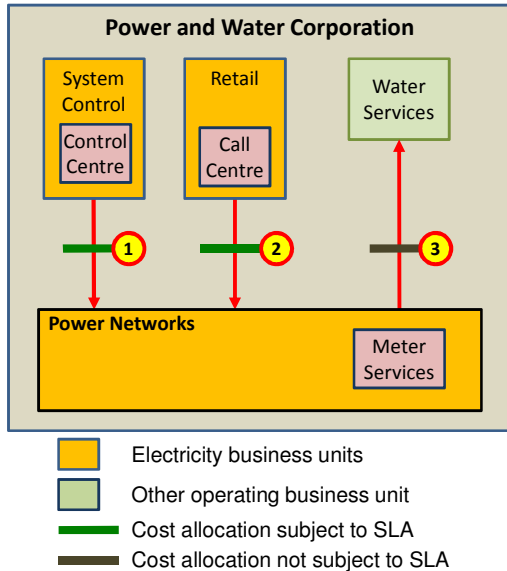
Corporate Business Unit	Division	Group	Allocation method and rationale
		Records Management Unit	
		BSIM Small Systems	
		Business Analysis	
		Chief Information Officer	
		BSIM Contracts	
		Project Management BSIM	
		Operations Training	

The percentage cost allocations for the 2013/14 budget for these services are included in Confidential Attachment A.

6 Cost allocations between operating Business Units

There are three interfaces at which costs are allocated between Power and Water's operating business units. These are illustrated in Figure 4.

Figure 4 – Cost allocation between operating business units



At each of these four internal interfaces within Power and Water, cost allocations cover the provision of services. The interfaces are:

1. System Control services provided to Power Networks;
2. Retail call centre services provided to Power Networks; and
3. Meter reading services provided by Power Networks Service Delivery group to Water Services

Each of these allocations is explained in turn.

6.1 System Control - Power Networks

The services provided between System Control and Power Networks are the subject of a Service Level Agreement (SLA)⁹. The Agreement was negotiated between the parties and is fully documented, as required by the Commission's ring fencing guidelines. The principal interactions between the business units covered by the SLA for which costs are allocated are summarised below:

- Power Systems Operation Services are provided to Power Networks by the System Control business unit. There are a number of aspects to this service, involving:
 - Control and operation of the network in accordance with agreed protocols in both normal and emergency conditions, including the coordination of emergency response and dispatch of crews;
 - Provide access to network infrastructure as required for planned work, including issue of access permits and logging of events; and
 - Emergency call centre services and call centre services for Power Networks out of hours (to complement the service provided by Retail during normal hours).

The agreement also specifies the close coordination, communications and cooperation required between the parties in order to ensure the satisfactory operation of the system.

⁹ Power and Water, Three Year Service Level Agreement between System Control Business Unit and Power Networks Business Unit for the provision of specified Power System Operation Services, 1 July 2011 to 30 June 2014.

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In consideration for these services, provisions in the SLA cover the allocation of System Control costs to Power Networks. These provisions are set out in Table 2.

Table 2 – System Control allocation to Power Networks

Service	Service provided to	Allocation method and rationale
Power Systems Operations Services	Networks	<p>Two part fee comprising:</p> <p>(a) Causal cost allocation on the basis of average costs = (time allocated per day)*(# staff)*(staff utilisation per day)*(wage rate) for the provision of each of the following services:</p> <ul style="list-style-type: none">• Network operation;• Under Frequency Load Shed;• Access permit management;• Out of hours call centre service;• Fault reporting;• Call out roster management;• Planned switching. <p>(b) A fixed facility fee to cover the shared cost of infrastructure used to support the provision of the above services, including hardware and software costs, communication costs and management support. The current allocation is 50% of these budget costs and includes a proportionate allocation of Corporate Services costs).</p> <p>The allocated fee is recovered in fixed monthly instalments.</p>

6.2 Power Networks - Retail

The services provided between Power Networks and Retail are the subject of two SLAs^{10,11}. The Agreements were negotiated between the parties and documented, as required by the Commission's ring fencing guidelines. The principal interactions between the business units covered by these SLAs are:

¹⁰ Power and Water, Service Level Agreement: Power and Water – Power Networks and Power and Water – Retail (Contestable), 1 July 2009 – 30 June 2014.

¹¹ Power and Water, Three Year Service Level Agreement between Retail Business Unit and Power Networks Business Unit for provision of specified retail services, 1 July 2011 to 30 June 2014.

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Power Networks and Power and Water – Retail (Contestable)

Power and Water Retail (Retail) is responsible for providing Power and Water’s commercial interface with customers and network users. Accordingly, the following arrangements apply in relation to the recovery of network revenues from Power and Water Retail:

- Power Networks provides standard control network services to Retail. Those services are in the categories of: network services; connection services; and metering services; at the standard service levels set out in the Network Technical Code; and
- In consideration of providing those standard control network services, Retail makes payment to Power Networks at the approved network tariffs for the customers concerned.

This SLA also covers the cooperation on a range of interactions between Power Networks and Retail relating to customer transactions. These interactions have no cost associated with them.

Retail and Power Networks - provision of specified retail services

This agreement sets out the respective responsibilities, information exchange protocols, terms and conditions and payment arrangements for services provided by Retail to Power Networks. Those services are as follows:

- Metering services, involving raising service requests for a range of situations where apparent metering issues exist. These situations include skipped, zero or anomalous meter reads, reading errors and meter damage or tamper. There is currently no cost associated with this service; and
- Call centre services during normal hours, for network faults and emergencies. These situations are managed in accordance with established protocols.

In consideration for these services, provisions in the SLA cover the allocation of Retail costs to Power Networks. These provisions are set out in Table 3.

Table 3 - Retail allocation to Power Networks

Service	Service provided to	Allocation method and rationale
Retail Call Centre Services	Network	Causal cost allocation is on the basis of the historic proportion of Network calls handled by the call centre to all calls. This allocation is applied to the total call centre budget cost. The recovery of a proportion of the corporate service allocation is based on the allocated cost of the service to the total Retail budget expenditure. Billing for this service is on a fixed monthly basis.

The SLA provides for the agreed amounts to be escalated by CPI each year.

6.3 Power Networks and Water Services

Power Networks provides meter reading services to the Water Services business unit. Power Networks uses contractors to carry out most meter readings and has a small number of in-house meter readers and support staff. Most customers have both electricity and water services and where this is the case, electricity and water meter readers are read at the same time. This arrangement between the business units is not currently the subject of a SLA. The contractors also provide a number of other services such as electrical disconnections and sewage audits but these are not a material component.

The costs of reading electricity and water meters have therefore been allocated on the basis of the respective numbers of meters, as shown in Table 4. Going forward, it is proposed that there will be a direct cost allocation to Water Services for the direct meter reading. The invoice from the contracted meter readers will show whether the meter reads are for Power Networks or Water Services, and this will then be coded appropriately to the relevant business unit.

The costs of the meter reading support staff have been allocated on the basis of the respective numbers of meters, as shown in Table 4. Going forward, the services that the associated support staff provide will be the subject of a SLA between Power Networks and Water Services.

Table 4 – Current Metering Services (Meter Reads) allocation to Water Services

Service	Service provided to	Allocation method and rationale
Meter Reading Services	Water Services	Allocation is on the number of electricity meters and the number of water meters that are read.

6.4 Cost allocation between operating business units

The detail of the cost allocations between Power and Water's operating business units described in sections 6.1 to 6.3 are included in Confidential Attachment B.

7 Cost allocations within Power Networks

The arrangements regarding cost allocations within the Power Networks are shown in Figure 5. "Upstream" allocations from Power and Water Retail and System Control business units are allocated to the operating groups within the Power Networks. "Upstream" allocations from Corporate Services are included within the Networks Executive costs that are then allocated to the operating groups within the Power Networks. Service Delivery and Southern Region costs are then allocated to the services that Power Networks provides (standard control services and alternative control and unregulated services).

Figure 5 – Cost allocations within Power Networks

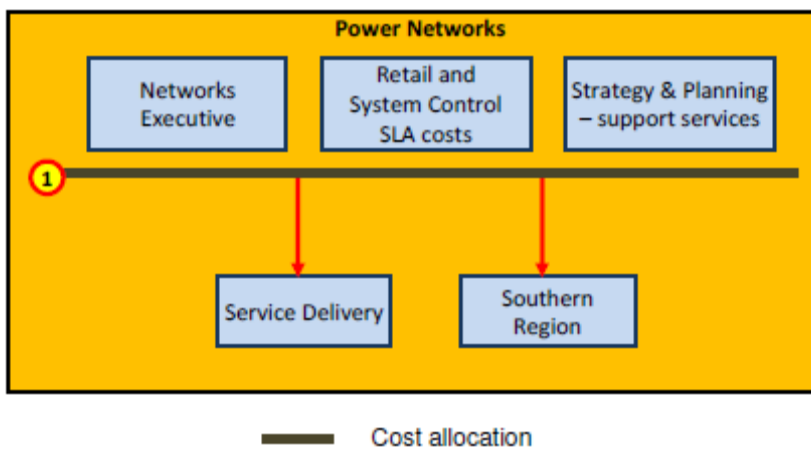


Figure 5 shows the cost allocations that cover the provision of support services within Power Networks. These are:

1. Power Networks Executive support services (including "upstream" Corporate Services cost allocations) provided to Service Delivery and Southern Region operating groups;
2. "Upstream" Power and Water Retail and System Control SLA costs provided to Service Delivery and Southern Region operating groups; and
3. Strategy & Planning group support services provided to Service Delivery and Southern Region operating groups.

7.1 Power Networks Executive – Networks groups

The Power Networks Executive provides services to the following Power Networks groups: Service Delivery, Southern Network and Strategy & Planning, as shown in Figure 5. The services provided include:

- Executive management;
- Commercial management;
- Change support;

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- Health Safety and Environment Specialist advice;
- Industry & Safety Liaison Coordination;
- Business administration; and
- Graduates and trainees.

The costs of these services and the “upstream” allocation of Corporate Services costs are allocated to the operating groups within Power Networks, as set out in Table 5. Power Networks Executive costs are not allocated to the Strategy & Planning group as these costs are ultimately allocated to the operating groups, Service Delivery and Southern Region.

Table 5 - Network Executive allocations to Power Networks groups

Service	Networks group	Allocation method and rationale
Power Networks Executive Services	Service Delivery, Southern Region	Causal cost allocation on the basis of the number of employees in each of the groups. This allocation is applied to the direct costs of Power Networks Executive Services and the allocated component of Corporate Service costs to Power Networks.

The costs outlined in Table 5 are referred to as ‘Network Executive Service’ costs in this CAM.

7.2 Power Networks Strategy & Planning – Networks operating groups

The Power Networks Strategy & Planning group provides services to the operating groups of Service Delivery and Southern Region. Those services include:

- Asset Management;
- Network Engineering;
- Development and Planning;
- Contract and Project Management; and
- Specialist engineering advice.

The costs associated with the support services that the Strategy & Planning group provides are allocated to the operating business units of Power Networks as described in Table 6.

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Table 6 - Networks Strategy & Planning allocation to Power Networks operating groups

Service	Networks group	Allocation method and rationale
Power Networks Strategy & Planning	Service Delivery, Southern Region	Causal cost allocation on the basis of the number of employees in each of the groups. This allocation is applied to the costs associated with the management and administration support services provided by Power Networks Strategy & Planning.

7.3 Cost allocation between Geographic Areas

Power Networks provides services to the geographic areas in both the Regulated Electricity Networks and Non-regulated Electricity Networks as defined in Schedule 2 of the Network Licence¹².

Costs are directly allocated to the regulated or non-regulated categories based on the locations where the work is undertaken. For example, costs associated with work completed on a distribution substation in Timber Creek would be directly allocated to the non-regulated category, whereas costs associated with work completed on the Darwin-Katherine Transmission Line would be directly allocated to the regulated category.

In addition, there is an allocation of Network Executive Service costs to the non-regulated category on the basis of the number of employees located in geographic areas that are part of the Non-regulated Electricity Network.

The costs allocated to the non-regulated category are not further considered in this cost allocation method.

7.4 Cost allocation between Power Networks groups

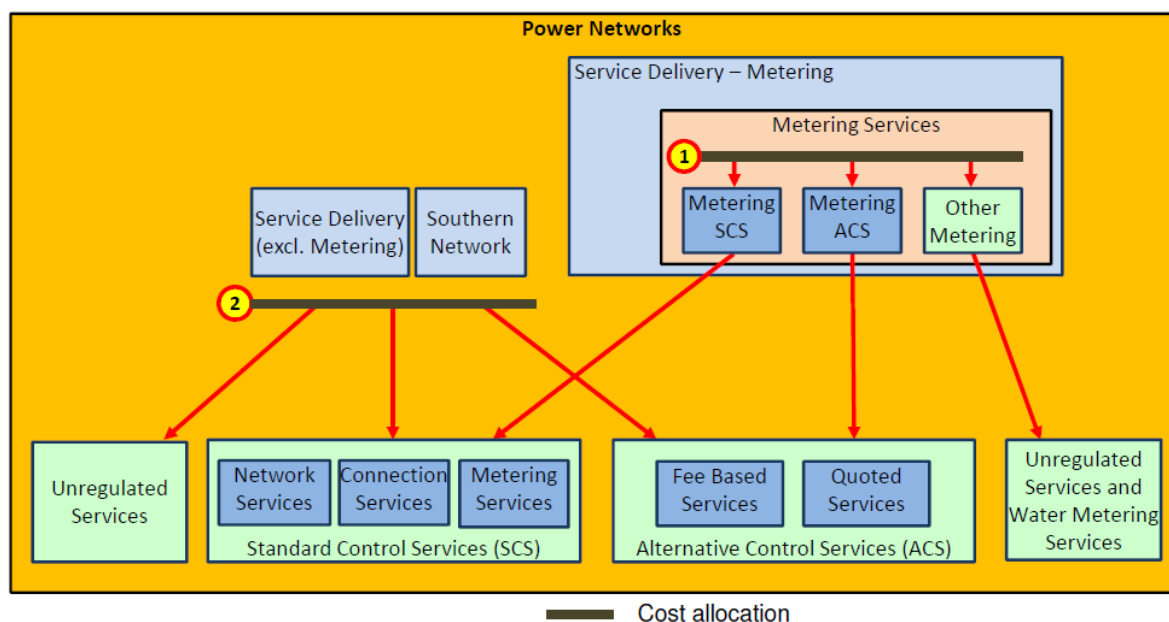
The detail of these cost allocations is included in Confidential Attachment C.

¹² Utilities Commission, Network Licence, issued 31 March 2000 and varied on 28 October 2011.

8 Cost allocations to Network Services

The costs of operating groups within Power Networks (Service Delivery, Southern Region, and Metering Services) are allocated to the categories of network services. It is not necessary to allocate the costs of the Strategy and Planning group to the categories of network services, as all of the costs relate to Standard Control Services. This arrangement is illustrated in Figure 6.

Figure 6 – Cost allocations to network services



8.1 Service Delivery and Southern Region cost allocations to Network Services

The costs of the Service Delivery and Southern Region groups are allocated to the categories of Standard Control Services and Alternative Control and Unregulated Services.

Streetlights are a Fee-Based Alternative Control Service. The costs associated with this Alternative Control Service are directly attributed. The costs associated with staff dedicated to providing street light services are separately recorded from those providing other network services.

A review of the times recorded on all work orders for the 2011/12 period has been used as the basis for the cost allocation between Standard Control Services and Alternative Control and Unregulated Services provided by the Service Delivery and Southern Regions. Table 7 sets out the cost allocation to network services.

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Table 7 - Service Delivery and Southern Region allocations to network services

Networks group	Network Service	Allocation method and rationale
Service Delivery Southern Region	Standard Control Services	Causal cost allocation on the basis of the number of hours logged in works orders by each of the groups to the respective services. This allocation is applied to the direct costs of the Service Delivery and Southern Region and the 'upstream' allocated components of Networks Executive Service and Strategy and Planning costs. This allocation excludes street light costs.
	Alternative Control Services and Unregulated Services	
	Alternative Control Service - Street Lighting	Direct attribution.

8.2 Metering cost allocation to Network Services

Metering Services costs are allocated to the categories of Standard Control Services, Alternative Control and Unregulated Services, and Water Metering Services as follows.

The allocation of Water Metering Services (water meter reading) costs is covered in section 6.3.

A detailed review of the activities of staff during 2011/12 and the dissection of their hours into those required to provide standard control services and those needed for alternative control and unregulated services was used as the basis for the cost allocation between those services. This allocation of services is set out in Table 8.

Table 8 - Metering Services allocations to network services

Networks group	Network Service	Allocation method and rationale
Metering Service Group	Standard Control Services	Causal cost allocation on the basis of a review of the staff activities and the number of hours required to provide the respective services. This allocation is applied to the direct costs of the Metering Service Group. This allocation is not applied to meter reading costs.
	Alternative Control Services and Unregulated Services	

8.3 Cost allocation to Network Services

The details of the cost allocation to network services are included in Confidential Attachment D.

8.4 Proposed restructuring within Power Networks

Following a review and consultancy advice concerning metering services and resources, it has been identified that a significant increase in the resources of this group is required.

This restructure will not affect the cost allocation to services, simply the structural and reporting arrangements.

9 Capital cost attribution

Depreciation and other directly related capital expenditure costs are assigned to the relevant business unit through the general ledger. In this way, the cost of the asset is matched with the services they provide.

Indirect operating cost and shared service capital asset costs are captured as part of headquarter cost.

The expense is attributed in accordance with Power and Water's corporate cost allocation method described in section 5 and listed in Attachment A.

10 Compliance

Power and Water maintains financial source documentation and records consistent with the accounting standards and statutory requirements adequately to demonstrate compliance with its methods.

Power and Water prepares and maintains appropriate documentation and information that support the preparation of regulatory financial reports for submission to the regulator.

Power and Water's Chief Finance Officer is responsible for monitoring Power and Water's compliance with the approved CAM.

Power Networks' Commercial Manager will be responsible for ensuring the preparation and maintenance of the CAM across the organisation and reporting to the Chief Financial Officer on the CAM and its application in preparing annual financial and regulatory statements. Power Networks' Commercial Manager will work closely with Power and Water's Finance Division to ensure that any financial information prepared for the Commission is compliant with the CAM.

10.1 Corporate cost allocations within Power and Water

The corporate cost allocation methodology embodied in the CAM is uploaded into the Oracle General Ledger system by a System Accountant and the resulting journals automatically calculated and disbursed on a monthly basis. Budget and forecasts are

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also automatically processed by the Oracle General Ledger system enabling comparison to actuals. Monthly actuals against budget by each of the business units verifies that the system upload has been done correctly. The CAM can be replicated by spreadsheet for verification.

10.2 Cost allocations between Power and Water's operating business units

These cost allocations are for:

- System Control services provided to Power Networks;
- Retail call centre services provided to Power Networks; and
- Meter reading services provided by Power Networks to Water Services.

The cost allocation methodology between Power and Water's operating business units for the cost allocations from System Control and Retail to Power Networks is uploaded into the Oracle General Ledger system by a System Accountant as a recurring journal which is processed and disbursed on a monthly basis. Budget and forecasts are manually loaded into the Oracle General Ledger system enabling comparison to actuals. Monthly actuals against budget analysis by each of the business units verifies that the system upload has been done correctly. The CAM can be replicated by spreadsheet for verification.

For the forthcoming regulatory control period, it is proposed that the cost allocation methodology for direct meter reading services provided by Power Networks Service Delivery group to Water Services will be a direct cost allocation to Water Services. The invoice from the contracted meter readers will show whether the meter reads are for Power Networks or Water Services, and this will then be coded appropriately to the relevant business unit. The services that the associated support staff provide will be the subject of a SLA between Power Networks and Water Services.

10.3 Cost allocations within Power Networks

These cost allocations are for:

- Executive services provided to each of the networks groups; and
- Strategy & Planning group services provided to Service Delivery and Southern Region groups.

The corporate cost allocation methodology embodied in the CAM is uploaded into the Oracle General Ledger system by a System Accountant and the resulting journals automatically calculated and disbursed on a monthly basis. Budget and forecasts are also automatically processed by the Oracle General Ledger system enabling comparison to actuals. Monthly actuals against budget by each of the business units verifies that

Cost Allocation Method

the system upload has been done correctly. The CAM can be replicated by spreadsheet for verification.

10.4 Cost allocations to Network Services

The costs of the Service Delivery, Southern Region and Metering groups are allocated to the categories of Standard Control Services and Alternative Control and Unregulated Services.

With the exception of streetlights, the allocation of costs to Standard Control Service and Alternative Control and Unregulated Service categories must be done manually in an excel spreadsheet, based on the allocations outlined in Attachment D. The costs allocated to Alternative Control Services and Unregulated Services will be excluded from the regulatory financial reports provided to the regulator on an annual basis.

Streetlights (excluding energy delivery) are a Fee-Based Alternative Control Service. As the costs associated with this Alternative Control Service are directly attributed and separately recorded, no manual allocation is required. Streetlight costs will also be excluded from the regulatory financial reports provided to the regulator on an annual basis.