

The background image shows a power substation with several large, cylindrical insulators. A worker in a yellow safety vest and white hard hat is on a yellow aerial lift platform, working on one of the insulators. Other workers in similar safety gear are on the ground, some using ladders. The scene is set outdoors with a clear sky.

# **AER Approved Regulatory Cost Allocation Method**

## **Attachment 2.1**

**31 October 2018**

**Public**

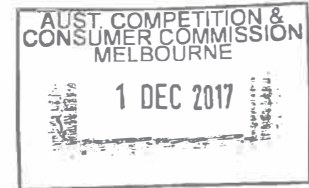
**PowerWater**

|                  |
|------------------|
| FILE No:         |
| DOC: D07. 170747 |
| MARS/PRISM:      |



Record No: D2017/412112

Container No: PM2017/2/41



Chris Pattas  
General Manager, Network Regulation  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Dear Mr Pattas

**Re: Cost Allocation Method**

Power and Water Corporation (PWC) is to be subject to a distribution determination made by the Australian Energy Regulator (AER) for the period 1 July 2019 to 30 June 2024 (the next regulatory control period).

PWC requires a Cost Allocation Method (CAM) approved by the AER under rule 6.15 of the National Electricity Rules (NER) to allow it to comply with various provisions in the NER and the expected obligations contained within the Regulatory Information Notice that is to be served on the business later in 2017. To this end, PWC has drafted a CAM to be consistent with the cost allocation principles set out in Rule 6.15.2 of the NER and the *Electricity Distribution Network Service Providers Cost Allocation Guidelines* (the Guidelines) published by the AER.

Additionally, PWC has engaged with officers of the AER on an informal basis to ensure that the CAM is both compliant with the relevant regulatory obligations and contains sufficient information to meet the intentions of the NER and Guidelines. We welcomed the officers' helpful explanations of both the underlying principles to be addressed in the CAM, and the process for obtaining approval.

Please find attached to this letter PWC's CAM and an explanatory document referred to within the CAM.

If you have any questions about this matter, please contact Jodi Triggs

[Jodi.Triggs@Powerwater.com.au](mailto:Jodi.Triggs@Powerwater.com.au)

Yours sincerely

Djuna Pollard  
Executive General Manager, Power Networks  
Power and Water Corporation

24 November 2017



# **Cost Allocation Method for Distribution Services**

|                           |                    |
|---------------------------|--------------------|
| <b>Version:</b>           | <b>1.0</b>         |
| <b>Issue Date:</b>        | <b>2017</b>        |
| <b>Commencement Date:</b> | <b>1 July 2019</b> |

## Version history and date of issue

| Version | Issue Date | Commencement Date | Description of Changes                                   |
|---------|------------|-------------------|--|
| 1.0     | 2017       | 1 July 2019       | N/A – initial version submitted to the AER for approval. |

PWC is committed to retaining a listing of the Cost Allocation Method's version history and date of issue.

In addition, PWC Power Networks will make available a current copy of its Cost Allocation Method on its website at [www.powerwater.com.au](http://www.powerwater.com.au).

## **Table of Contents**

|    |  |    |
|----|--|----|
| 1  | Background .....                                 | 4  |
| 2  | Document Structure .....                         | 5  |
| 3  | Nature, Scope and Purpose .....                  | 7  |
| 4  | Corporate and Organisational Structure .....     | 9  |
| 5  | Distribution Services .....                      | 14 |
| 6  | Principles and Policies.....                     | 17 |
| 7  | Systems to Record Costs .....                    | 18 |
| 8  | Attribution of Direct Costs .....                | 22 |
| 9  | Allocation of Indirect Costs.....                | 25 |
| 10 | Cost Allocation and Capitalisation Diagrams..... | 29 |
| 11 | Record Maintenance and Verification .....        | 30 |
| 12 | Compliance .....                                 | 31 |
| 13 | Commencement Date.....                           | 32 |

## **1 Background**

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

As the Network Service Provider in the NT,<sup>1</sup> PWC has responsibility for planning, building and maintaining reliable electricity networks to transport electricity between electricity generators and consumers. PWC's mission is to achieve this in a safe, reliable, efficient and environmentally sustainable manner.

PWC must submit a Cost Allocation Method (CAM) to the (Australian Energy Regulator) AER for approval in accordance with clause 6.15.4 of the National Electricity Rules<sup>2</sup> (the Rules) and clause 3.1 of the AER's Cost Allocation Guidelines.<sup>3</sup> The CAM must give effect to and be consistent with the Guidelines. Additionally, under clause 6.17 of the Rules, from 1 July 2019, the CAM must also give effect to the cost allocation provisions of the AER's Ring-fencing Guideline<sup>4</sup>.

Any amendments to the CAM must also be consistent with the requirements of both the Rules and the Cost Allocation Guidelines.

This document is produced to fulfil these regulatory obligations. Appendix 2 details how PWC meets the requirements of the Rules, the Cost Allocation Guidelines and the Ring-fencing Guideline.

---

<sup>1</sup> *National Electricity (NT)(National Uniform Legislation) Act 2015* (as in force at 2 July 2015).

<sup>2</sup> National Electricity Rules (Northern Territory).

<sup>3</sup> Australian Energy Regulator, Electricity distribution network service providers: Cost allocation guidelines, June 2008.

<sup>4</sup> Australian Energy Regulator, Ring-Fencing Guideline, Electricity Distribution, November 2016.



## 2 Document Structure

The structure of the PWC CAM, the corresponding regulatory requirements of the Rules, the Cost Allocation Guidelines and the Ring-fencing Guideline, are outlined in Table 1.

**Table 1. CAM Structure**

| Section | Title   | Purpose   | Rules' clause | CAG <sup>5</sup> section       | RFG <sup>6</sup> section |
|---------|---|---|---------------|--------------------------------|--------------------------|
| -       | Version history, date of issue and publication      | Sets out the version number, history and date of issue of the document. It also provides PWC's website address and commitment to ensuring a current copy is uploaded.   |               | 3.2(a)(1)<br>3.2(a)(2)<br>5.4. |                          |
| 1       | Background  | Explains requirement for this CAM and provides a brief introduction.  | 6.15.4(a)     | 1.5<br>3.1                     |                          |
| 2       | Document Structure                                  | Outlines the format and contents of the CAM in accordance with the Cost Allocation Guidelines.  |               |                                |                          |
| 3       | Nature, Scope and Purpose                           | Provides a statement of the nature, scope and purpose of the CAM.<br><br>It also sets out the way in which it is to be used by PWC, including:<br>Accountabilities for implementing the CAM; and<br>Responsibilities for updating, maintaining and applying the CAM, and for monitoring and reporting on its application. |               | 3.2(a)(3)<br>5.1               |                          |
| 4       | Corporate and Organisational Structure and Services | Describes PWC's corporate and organisational structure.   |               | 3.2(a)(4)                      |                          |
| 5       | Distribution Services                               | Summarises the categories of distribution services and the types of persons to whom the services are provided.  |               | 3.2(a)(5)                      |                          |
| 6       | Principles and Policies                             | Outlines the principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet   | 6.15.2(1)     | 2.2<br>3.2(a)(6)               | 3.2.2(a)                 |
| 7       | Systems to Record Costs                             |   |               | 2.2.1(b)(1)D<br>2.2.1(b)(2)H   |                          |

<sup>5</sup> Cost Allocation Guideline

<sup>6</sup> Ring-fencing Guideline

### Distribution Services Cost Allocation Method

| Section | Title                               | Purpose  | Rules' clause                           | CAG <sup>5</sup> section    | RFG <sup>6</sup> section |
|---------|-------------------------------------|--|---|-----------------------------|--------------------------|
| 8       | Attribution of Direct Costs         | the requirements of clause 2.2 of the Cost Allocation Guidelines.                          | 6.15.2(3)(i)                            | 2.2.1(b)(1)<br>2.2.2, 2.2.3 | 3.2.2(a)                 |
| 9       | Allocation of Shared Costs          |  | 6.15.2(1)<br>6.15.2(3)(ii)<br>6.15.2(4) | 2.2.1(b)(2)                 | 3.2.2(a)                 |
| 10      | Record Maintenance and Verification |  |   | 3.2(a)(7)<br>5.2(a)         |                          |
| 11      | Compliance                          | Describes how PWC will monitor its compliance with the CAM and Cost Allocation Guidelines. |   | 3.2(a)(8)                   |                          |
| 12      | Commencement Date                   | Provides the commencement date of the document.  |   | 3.2(a)(9)                   |                          |
| App 1   |                                     |  |   |                             | 3.2.2(a)                 |



### **3 Nature, Scope and Purpose**

This section is to comply with section 3.2(a)(3) of the Cost Allocation Guidelines:

A DNSP's proposed Cost Allocation Method must include the following information: ... [a] statement of the nature, scope and purpose of the document and the way in which it is to be used by the DNSP;

- A. Details of the accountabilities within the DNSP for implementing the Cost Allocation Method; and
- B. Responsibilities within the DNSP for updating, maintaining and applying the Cost Allocation Method and for internally monitoring and reporting on its application.

This section also commits PWC to applying the CAM, as provided for in section 5.1(a) of the Cost Allocation Guidelines:

In accordance with clause 6.15.1 of the NER, a DNSP must comply with the Cost Allocation Method that has been approved from time to time by the AER in respect of that DNSP.

#### **3.1 Nature, Scope and Purpose**

This document, the PWC CAM, sets out the principles and policies for:

- attributing costs directly, and allocating shared costs, to distribution services; and
- attributing costs directly to, and allocating shared costs between, the categories of regulated distribution services provided by PWC.

This CAM:

- details the attribution and allocation of costs to PWC's regulated distribution services;
- details the attribution and allocation of costs within PWC's regulated electricity distribution business;
- relates to the costs of supplying the "local distribution systems";<sup>7</sup> and
- does not apply to PWC's non-regulated electricity network.<sup>8</sup>

This CAM has been developed in accordance with the requirements of the Rules and Cost Allocation Guidelines and will be used, amongst other things, as provided for in section 2.1 of the Guidelines, in preparing:

- forecast operating expenditure to be submitted to the AER in accordance with clause 6.5.6 of the Rules;
- forecast capital expenditure to be submitted to the AER in accordance with clause 6.5.7 of the Rules;

<sup>7</sup> Schedule 2, *National Electricity (NT)(National Uniform Legislation) Act 2015*.

<sup>8</sup> Schedule 2, Network Licence: Issued to Power and Water Corporation, as varied on 5 April 2015.

## *Distribution Services Cost Allocation Method*

- prices for negotiated distribution services determined in accordance with clause 6.7.1 of the Rules;
- prices for distribution services classified as Alternative Control Services;
- annual statements in accordance with a future regulatory information instrument; and
- actual or estimated capital expenditure for the purposes of increasing the value of its regulatory asset base under schedule 6.2.1(f) of the Rules.

PWC will comply with the CAM that has been approved by the AER.

### **3.2 Accountability for Implementation**

Accountability for implementing the CAM resides with the Executive General Manager Power Networks of PWC.

### **3.3 Administration of the CAM**

The Senior Manager Network Regulation is responsible for updating and maintaining the CAM.

## **4 Corporate and Organisational Structure**

This section is to comply with section 3.2(a)(4) of the Cost Allocation Guidelines:

A DNSP's proposed Cost Allocation Method must include the following information: ... [a] description of the DNSP's corporate and operational structure in order to enable the AER to understand how the DNSP is organised to provide its distribution services.

### **4.1 Corporate Structure**

PWC is a multi-utility that provides:

- electricity distribution services;
- water services; and
- waste water services

to the main population centres of the Northern Territory. PWC also supplies gas to the Territory's major power stations.

The delivery of electricity, water and sewerage services in remote communities is provided through PWC'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.

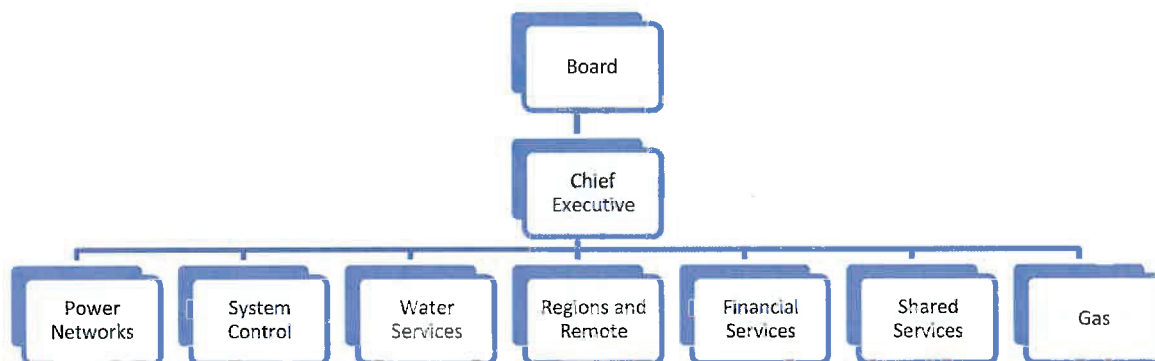
PWC's executive and business units have been structured to provide these services. The current PWC executive organisational structure is shown in Figure 1.

Administrative support functions, such as billing and the call-centre, are provided by the Corporate business units (Financial Services and Shared Services) to all PWC operational business units, with costs being allocated through the PWC Corporate cost allocation process.

Electricity distribution operational services are provided by parts of the Power Networks and System Control business units. The allocation of costs within these business units is covered by this CAM.

The remainder of this section explains how Power Networks, System Control and the Corporate business units (Financial Services and Shared Services) contribute to the provision of electricity distribution services.

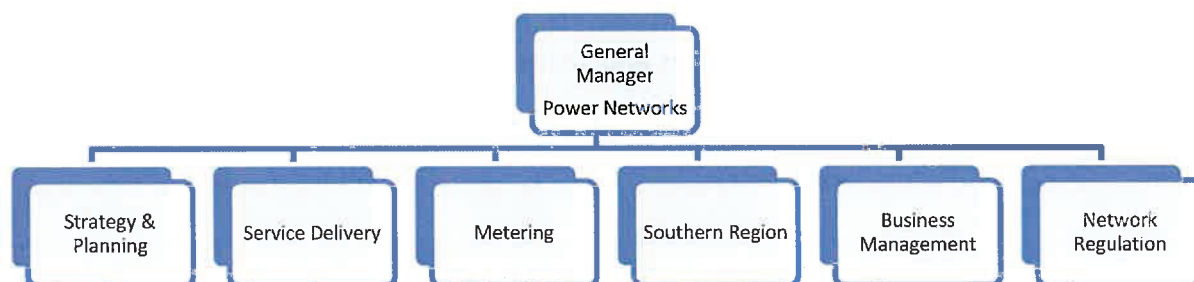
**Figure 1. PWC's executive organisational structure (as at July 2017)**



## **4.2 Power Networks**

The Power Networks' business unit provides most of the electricity distribution services in the NT. This business unit has five groups, as illustrated in Figure 2 and explained below. Power Networks acquires additional support services from other PWC business units.

**Figure 2. Power Networks' organisational structure (as at March 2017)**



#### **4.2.1 Strategy and Planning**

The main business sections and activities undertaken by the Strategy and Planning Group are:

- Asset Management (as the asset owner), comprising:
  - Asset Strategy, which is responsible for:
    - maintenance and upgrade strategies and programs; and
    - asset condition.
  - Asset Quality and Systems, which is responsible for:
    - Quality – standards, design guidelines, technical specifications, inventory, essential spares, asset disposal, and stock take; and
    - Systems – Geographical Information System & Asset Management System).
  - Protection, Controls and Communications, which is responsible for:
    - protection system maintenance and upgrade strategies; and
    - SCADA and Communication System maintenance and upgrade strategies.
- Network Engineering, which is responsible for the planning, design and management of network extensions, customer connections and network augmentations.
- Network Planning and Development, which is responsible for:
  - short; medium and long term network development and planning; and
  - short term operational planning support.
- Major Projects, which is responsible for project management of PWC Power Networks' major, and some highly specialised minor, capital projects.

#### **4.2.2 Service Delivery**

The main business sections and activities undertaken by the Service Delivery Group are:

- Field Services, which is responsible for:
  - emergency response capability for the distribution network;
  - completing PWC Power Networks' maintenance and operating programs; and
  - assisting with PWC Power Networks' capital expenditure program.
- Substation Services, which is responsible for assessing, maintaining and repairing key strategic substation plant and equipment;
- Test and Protection, which is responsible for:
  - the provision of high level pre-commissioning testing, high voltage acceptance testing of new and repaired plant, protection and power transformer preventative maintenance; and
  - corrective maintenance and specific replacement projects associated with these assets; and

- SCADA and Communications, comprising:
  - Supervisory Control and Data Acquisition (SCADA) services (SCADA group), which is responsible for:
    - the design, maintenance and support of the Alstom Energy Management System (EMS); and
    - the remote equipment that is monitored and controlled by the EMS.
  - operational telecommunications services (Communications group), which is responsible for the design, installation, maintenance and support for operational communications systems.

#### **4.2.3 Southern Region**

Southern Region undertakes some strategy and planning activities and all of the service delivery and metering activities for the Alice Springs and Tennant Creek networks.

#### **4.2.4 Metering**

Metering is responsible for all metering services on the network, and incorporates elements of the Strategy & Planning, and the Service Delivery streams.

#### **4.2.5 Business Management**

The Business Management group is Power Networks' support group and is responsible for:

- business administration;
- health and safety; and
- work practice and training.

#### **4.2.6 Network Regulation**

Network Regulation is responsible for:

- regulatory matters, including regulatory reporting and compliance;
- the preparation of distribution determinations;
- provision of regulatory advice internally; and
- external liaison with regulators and network bodies.

### **4.3 System Control**

The System Control business unit is responsible for providing, on behalf of Power Networks, the following regulated distribution services:

- operation of the network;
- planning and coordination of outages and the management of access to and exit from the HV network; and
- provision of a system fault calls receipt and dispatch facility.



Additionally, the System Control business unit undertakes local market operator functions. These are not classified services under the Rules because they are not part of the provision of distribution services.

#### **4.4 Corporate Business Units**

Power Networks and System Control receive the following services from the Corporate Business Units:

- Financial Services provides:
  - financial support;
  - economics and regulatory support; and
- Shared Services is responsible for:
  - customer services;
  - network billing, including meter data management;
  - legal services;
  - IT;
  - facilities;
  - customer and stakeholder engagement support;
  - fleet management; and
  - human resources.

The allocation of the corporate support costs between PWC business units is dealt with through the PWC Corporate cost allocation process.

## 5 Distribution Services

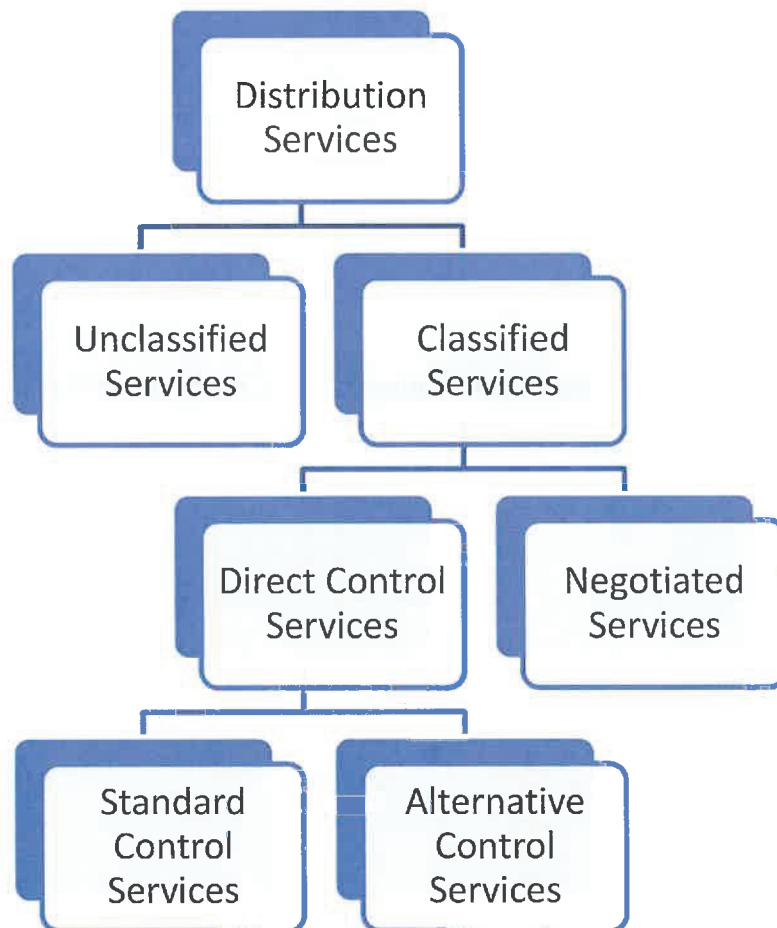
This section is to comply with section 3.2(a)(5) of the Cost Allocation Guidelines:

A DNSP's proposed Cost Allocation Method must include the following information: ... [a] specification of the categories of distribution services that the DNSP provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided.

### 5.1 Categories of Service

PWC will provide the distribution services that are classified by the AER according to clause 6.2 of the Rules, as well as any distribution services that are not classified. These distribution services are generally described in the remainder of this section, and a hierarchy of these services is given in Figure 3.

**Figure 3. Distribution service classifications**



## **5.2 Direct Control Services – Standard Control Services**

Direct Control, Standard Control Services are those services classified as such by the AER. In general, these are associated with providing shared network services for connected customers, including:

- maintaining the safety, reliability and quality of electricity delivered by the network;
- planning and designing the network to meet the network capacity needs of electricity customers;
- extending and upgrading the network; and
- connecting customers to the network.

Standard Control Services are provided in accordance with the national electricity legislation and jurisdictional electricity legislation.

## **5.3 Direct Control Services – Alternative Control Services**

Direct Control, Alternative Control Services are those services classified as such by the AER. In general, these are associated with providing services for the benefit of a single customer.

Alternative Control Services are provided in accordance with the national electricity legislation and jurisdictional electricity legislation.

## **5.4 Negotiated Services**

Negotiated Services are those services classified as such by the AER.

Negotiated Services are provided in accordance with the national electricity legislation and jurisdictional electricity legislation.

## **5.5 Unclassified Services**

Unclassified Services are those that are not subject to regulation under national electricity legislation. They include services provided outside the locations specified in the *National Electricity (NT)(National Uniform Legislation) Act 2015* are considered to be Unclassified Services.

### *Distribution Services Cost Allocation Method*

In addition, PWC provides miscellaneous services, which are considered to be Unclassified Services, to customers on the regulated electricity network. These include:

- equipment rental for non-network purposes;
- investigation and testing services; and
- contestable networks engineering consulting services.

Power Networks provides unclassified services to those customers that request them.

## **6 Principles and Policies**

This section is to comply with section 3.2(a)(6) of the Cost Allocation Guidelines:

A DNSP's proposed Cost Allocation Method must include the following information: ... [the] DNSP's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of these Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.

This section is also to comply with clause 3.2.2(a) of the Ring-fencing Guideline:

A DNSP must allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.

This section also addresses the Cost Allocation Principles in clause 6.15.2 of the Rules given that the principles and policies in section 2 of the Cost Allocation Guidelines are consistent with those in the Rules.

PWC will attribute and allocate costs to and between its distribution services so that:

- it complies with the detailed principles and policies in section 2.2.1 of the Cost Allocation Guidelines. This is discussed in sections 8 and 9 of this CAM;
- costs will be allocated according to the underlying substance of transactions rather than the legal form, as per section 2.2.2 of the Guidelines;
- only costs that are directly attributable to the provision of a particular category of distribution services will be directly attributed to that category of services, as per section 2.2.3 of the Guidelines;
- shared costs incurred in providing several categories of distribution services will be allocated between those categories using an appropriate causal allocator, as per section 2.2.4 of the Guidelines;
- shared costs will not be allocated using an avoided cost approach without prior approval by the AER, as per section 2.2.4(e) of the Guidelines;
- the same cost has not been allocated more than once, as per section 2.2.5 of the Guidelines;
- costs will be allocated in accordance with the AER's distribution ring-fencing guidelines, as per section 2.2.6 of the Guidelines; and
- costs that have been attributed or allocated to distribution services will not be reattributed or reallocated to another service during the course of a regulatory control period, as per section 2.2.7 of the Guidelines.

## **7 Systems to Record Costs**

This section is to comply with sections 2.2.1(b)(1)D and 2.2.1(b)(2)H of the Cost Allocation Guidelines that require a DNSP's CAM to include details of:

How and where records will be maintained to enable the basis of attribution to be audited or otherwise verified by a third party, including the AER.

How and where records will be maintained to enable the allocation to be audited or otherwise verified by a third party, including the AER.

### **7.1 PWC's Cost Categories and Systems**

PWC has the following categories of costs:

- Direct costs, which comprise:
  - Direct capex;
  - Direct opex;
  - Repairs and maintenance (which is a component of opex)
- Indirect costs:
  - Distribution shared costs / overheads;
  - Corporate shared costs / overheads.

PWC's Asset Management System (AMS), Maximo, is used to capture:

- Direct costs;
- Distribution shared costs / overheads; and

PWC's Financial Management System, Oracle, is used to:

- Capture direct costs and indirect costs that are not captured by AMS; and
- Take inputs from its AMS.

### **7.2 How PWC captures its costs in its AMS**

PWC's direct costs and indirect operational costs relate to labour, materials, contractors and other.

PWC captures:

- Labour costs using timesheets;
- Contractor, other and some materials' costs through invoices; and
- Some materials through its stores' records.

These costs are recorded in "work orders" within Maximo.

"Work orders" for direct capex and indirect operational costs are consolidated against "projects", within Maximo.

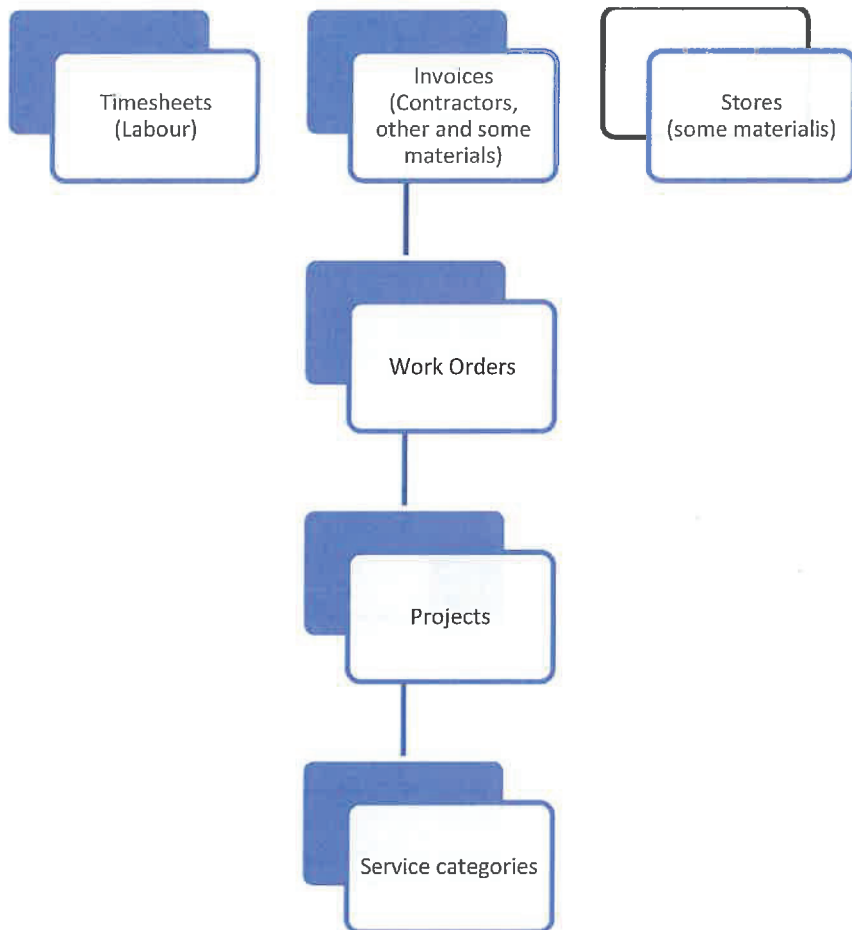
All "work orders" and "projects" are assigned to PWC's different service categories.



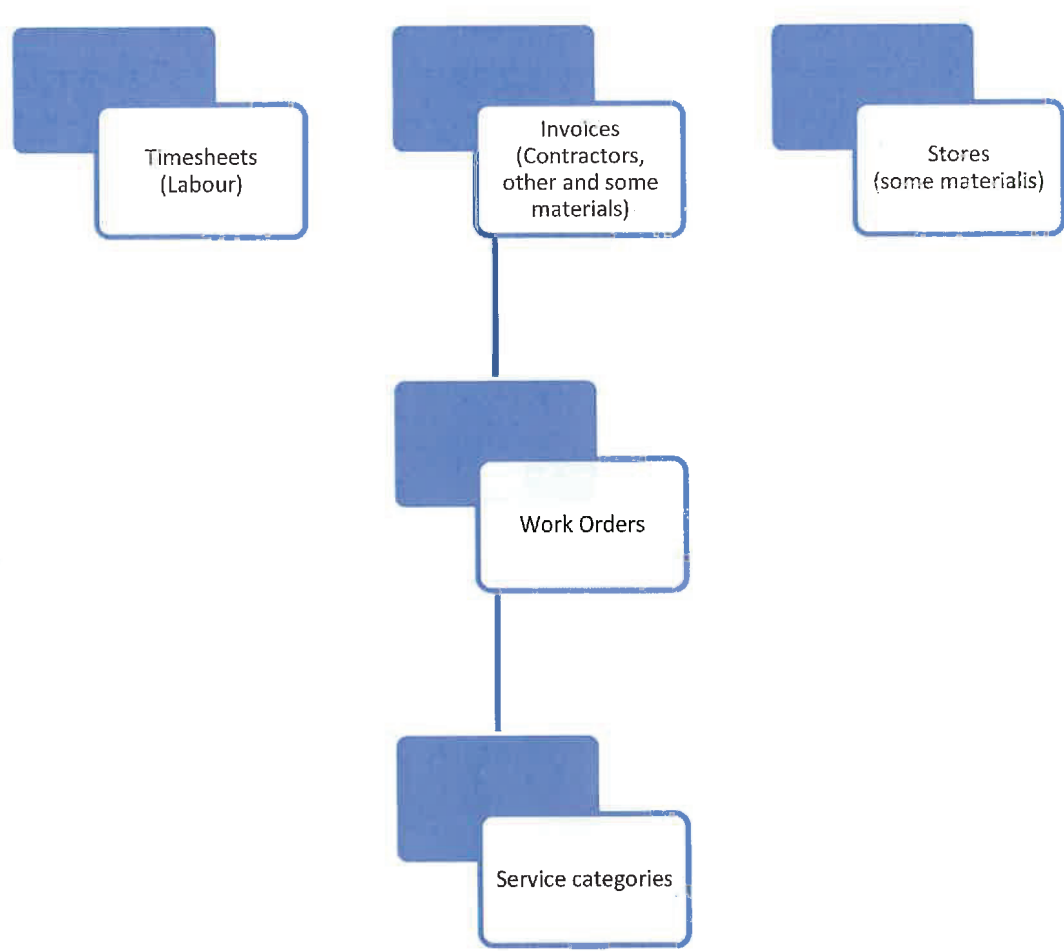
Figure 4 illustrates how PWC captures its direct capex and indirect operational costs in its AMS.

Figure 5 illustrates how PWC captures its direct opex and repairs and maintenance costs in its AMS.

**Figure 4. Capturing direct capex and indirect operational costs**



**Figure 5. Capturing direct opex and repairs and maintenance in Maximo**



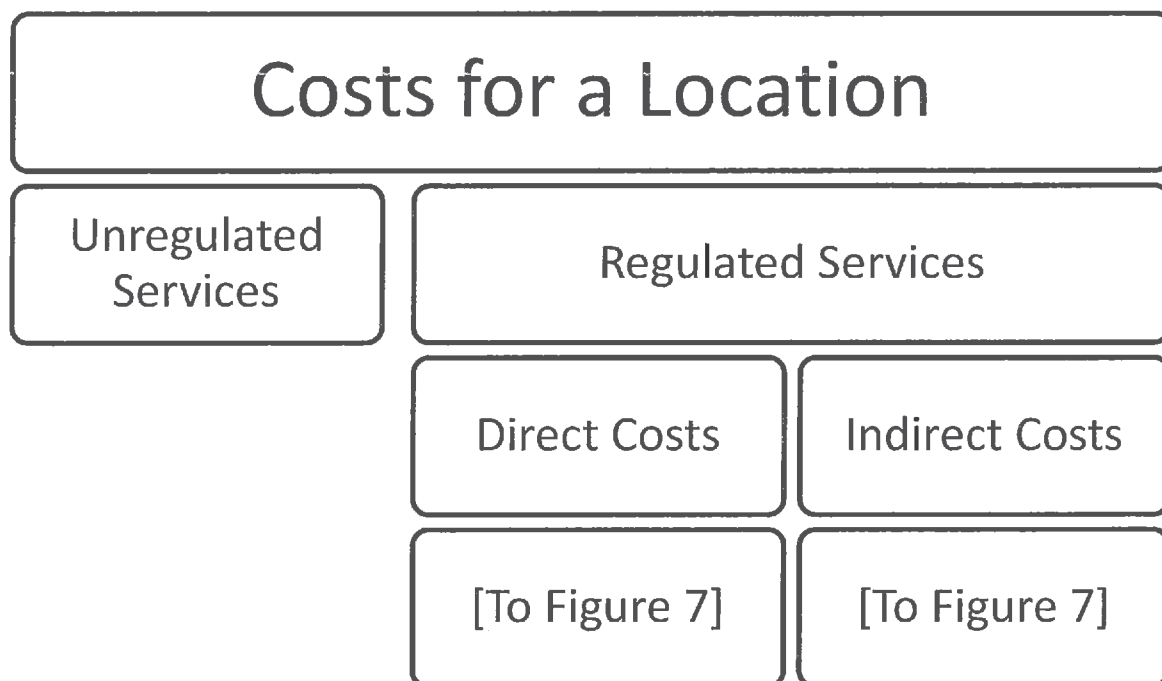
### 7.3 How PWC Captures its Costs in FMS

The current PWC FMS uses a chart of accounts that naturally captures costs by:

- Entity – division in PWC;
- Business Unit – group and section within the entity;
- Location – geographical area in which the cost occurs;
- Activity; and
- Cost type.

Economic regulation under the NER is based on services; this is not captured directly in FMS. Consequently, PWC may provide both regulated and unregulated services in a given Location. Accordingly, the data from FMS must be analysed to differentiate costs for regulated and unregulated services in each Location. The costs for regulated services are then divided into Direct and Indirect costs, which are then treated as described in the following sections. This is presented graphically in Figure 6. More information is provided in the document *Mapping the PWC Chart of Accounts*.

Figure 6. Division of Costs into Regulated and Unregulated Services



## **8 Attribution of Direct Costs**

This section is to comply with clause 6.15.3(i):

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.

and 2.2.1(b)(1) of the Cost Allocation Guidelines:

For the avoidance of doubt, section 2.2.1(a) means that a DNSP must include information on the following matters only to the extent necessary to enable the AER to replicate its reported outcomes: ... [for] directly attributable costs:

- A. The nature of each cost item;
- B. The category of distribution services to which the cost item is to be directly attributed;
- C. The characteristics of the cost item that associate it uniquely with a particular category of distribution service in order to make it a directly attributable cost; and
- D. How and where records will be maintained to enable the basis of attribution to be audited or otherwise verified by a third party, including the AER.

and 2.2.3 of the Guidelines:

(a) In accordance with the requirements of NER clause 6.15.2(3)(i), only costs that are directly attributable to the provision of a particular category of distribution services may be directly attributed to that category of services.

(b) A cost may be directly attributable to a DNSP but not directly attributable to a particular category of distribution services provided by the DNSP. In this circumstance, the allocation of costs between categories of distribution services may only be made in accordance with clause 2.2.4 of these Guidelines.

### **8.1 Attribution**

Direct costs are those:

- costs that can be directly attributed to the provision of a particular category of distribution services.

As discussed in section 7, PWC uses a “work order” approach in its AMS, with “work orders” being attached to particular distribution services. Work orders are consolidated into “projects” in the case of direct capex.

Costs that cannot be attributed directly are treated as indirect costs, as discussed in section 9.

### *Distribution Services Cost Allocation Method*

Table 2 shows that PWC directly attributes its costs between its distribution services. It also shows the basis on which this attribution is made.

**Table 2. Attribution of Direct Costs**

| Expense Category   | Description  | Attributed Between  | Basis of Attribution                                     |
|--------------------|--|---|--|
| Direct Labour      | Costs for labour used for the provision of distribution services that are not contractor costs.    | Standard Control Services<br>Alternative Control Services<br>Negotiated Services<br>Unclassified Services | Attributed by time-sheets to work orders.                |
| Direct Materials   | Costs for materials used for the provision of distribution services that are not contractor costs. |   | Attributed by invoices or through stores to work orders. |
| Direct Contractors | Costs resulting from services provided by external service providers.                              |   | Attributed by invoices to work orders.                   |
| Direct Other       | Costs that are not in one of the other expense categories.   |   | Attributed by invoices to work orders.                   |

## **8.2 Capitalisation of Direct Costs**

Work orders are associated with either direct capex and indirect operational costs. Consequently, costs are allocated directly to both capex and opex.



## **9 Allocation of Indirect Costs**

This section is to comply with clause 6.15.2(1) of the Rules:

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.

and 6.15.2(3)(ii) of the Rules:

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.

and 6.15.2(4) of the Rules:

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.

and section 3.2(a)(6) of the Cost Allocation Guidelines:

A DNSP's proposed Cost Allocation Method must include the following information: ... [the] DNSP's detailed principles and policies to be used for attributing costs directly to, or allocating costs between, categories of distribution services that meet the requirements of clause 2.2 of these Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions.

and 2.2.1(b)(2) of the Guidelines:

For the avoidance of doubt, section 2.2.1(a) means that a DNSP must include information on the following matters only to the extent necessary to enable the AER to replicate its reported outcomes: ... [for] shared costs:

- A. The nature of each cost item;
- B. The categories of distribution services between which each cost item is to be allocated;
- C. The nature of the allocator, or allocators, to be used for allocating each cost item;
- D. The reasons for selecting the allocator, or allocators, for each cost item and an explanation of why it is the most appropriate available allocator, or set of allocators, for the cost item;
- E. Whether the numeric quantity or percentage of the allocator, or allocators, to be applied for each cost item will:
  - (i) Remain unchanged over the regulatory control period; or
  - (ii) Change from time to time throughout the regulatory control period.
- F. If clause 2.2.1(b)(2)E(i) applies:
  - (i) Details of the numeric quantity or percentage of the allocator, or allocators; and
  - (ii) An explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage have been sourced.
- G. If clause 2.2.1(b)(2)E(ii) applies, an explanation of how the DNSP intends to calculate the numeric quantity or percentage throughout the regulatory control period, including where the data for determining the changing numeric quantities or percentages are to be sourced.

## **9.1 Allocation of indirect costs to distribution services**

PWC 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:

- electricity distribution services;
- water services;
- waste water services;
- gas business unit;
- Regions and Remote business unit; and
- IES.

For example, as noted in section 4.1, administrative support functions, such as billing and the call-centre, are provided by the Corporate business units (Financial Services and Shared Services) to all PWC operational business units.

PWC allocates its costs between its different types of services using its Corporate cost allocation process. PWC uses a variety of allocators for this purpose, as detailed in Appendix 1.

Costs are allocated to IES on a marginal (avoidable cost) basis. This is done to reflect the not-for profit nature of the business and accommodate the NT Government<sup>9</sup> funding arrangements for the provision of essential services to remote indigenous communities.

Once PWC has allocated a share of indirect costs to electricity distribution services this share is allocated between its electricity distribution services.

PWC intends:

- that the value of allocators will change each year within a regulatory control period; and
- to calculate the annual value of the allocators throughout the regulatory control period based on information that is captured and recorded in its systems, as discussed in section 7 of this CAM.

## **9.2 Allocation of indirect costs between distribution services**

PWC has indirect costs that cannot be directly attributed to the provision of a particular category of distribution services and which need to be allocated between different categories of distribution services. These indirect costs comprise both:

- Power Networks' shared costs / overheads (i.e. "indirect operational costs"); and
- Corporate shared costs / overheads.

Table 3 details: PWC's indirect cost items; the distribution services to which it allocates these costs; and its chosen cost allocator. It shows that PWC will allocate all of its indirect costs between its distribution services in the same proportion as it attributes its direct costs.

---

<sup>9</sup> Department of Local Government and Community Service.

### *Distribution Services Cost Allocation Method*

PWC has chosen to allocate its indirect costs between its distribution services in the same proportion as the attribution of its direct costs because it is reasonable to assume that direct and indirect costs apply equally to different kinds of distribution services.

PWC intends:

- that the value of the percentage allocator will change each year within a regulatory control period, based on the direct costs that are attributed to different types of distribution services; and
- to calculate the annual value of the percentage allocator throughout the regulatory control period based on information that is captured and recorded in its AMS, as discussed in section 7 of this CAM.

**Table 3. Indirect Costs, Capex and Opex**

| Expense Category     | Description  | Allocated Between   | Basis of Allocation              |
|----------------------|--|---|----------------------------------|
| Indirect Labour      | Costs for labour used for the provision of distribution services that are not contractor costs.    | Standard Control Services<br>Alternative Control Services<br>Negotiated Services<br>Unclassified Services | Proportion of direct expenditure |
| Indirect Materials   | Costs for materials used for the provision of distribution services that are not contractor costs. |   |                                  |
| Indirect Contractors | Costs resulting from services provided by external service providers.                              |   |                                  |
| Indirect Other       | Costs that are not in one of the other expense categories.   |   |                                  |

### 9.3 Capitalisation of Indirect Costs

PWC capitalises costs in accordance with its Capitalisation Policy. The Capitalisation Policy has been created to be consistent with regulatory requirements to ensure the portion of overheads capitalised in the construction of assets is reasonable.

For Shared Assets, the allocation of capital expenditure will be based on their proportional use as per the approved service classification.

Allocation of indirect costs between capex and opex is shown in Table 4.

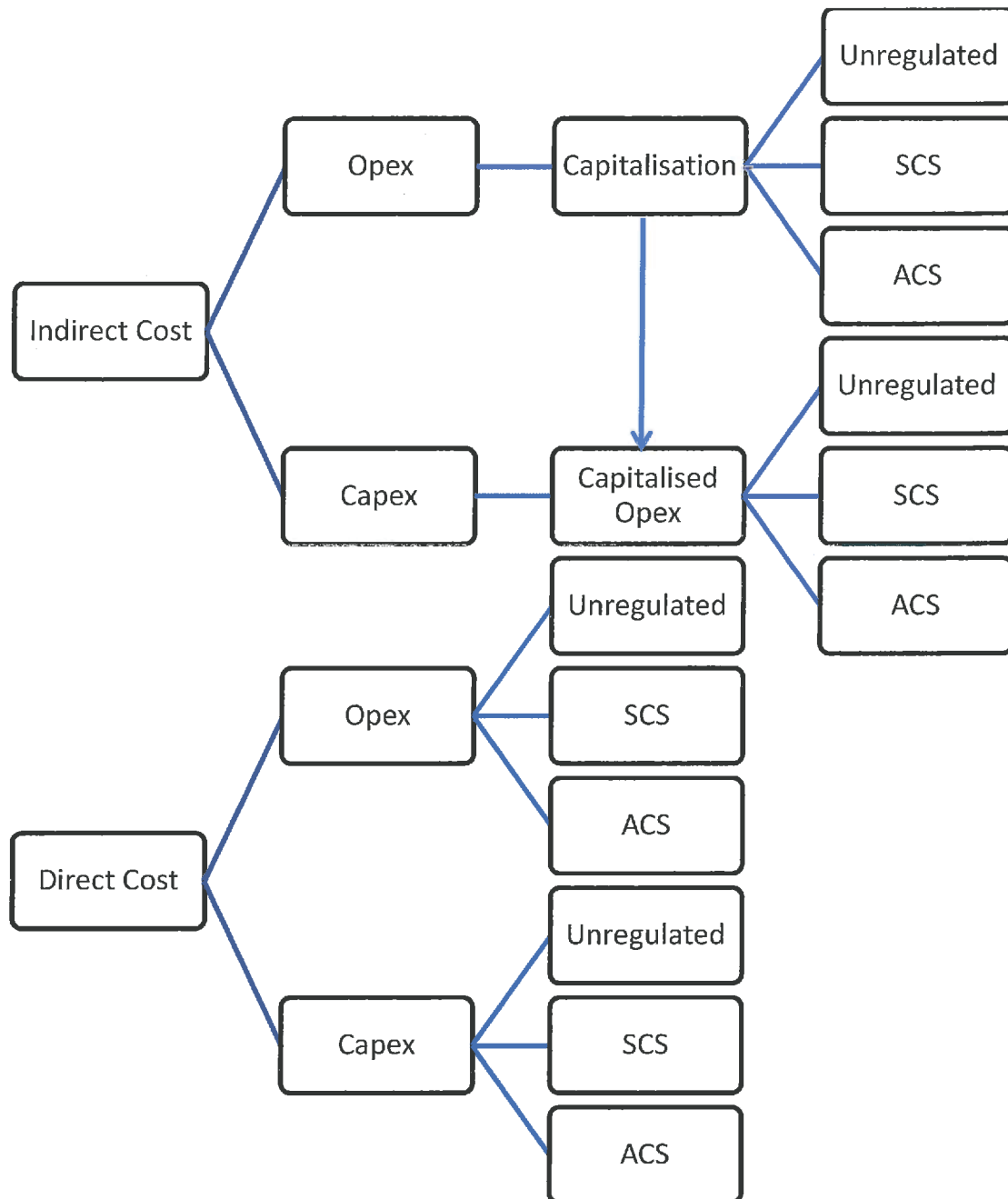
**Table 4. Capitalisation of Indirect Costs**

| Expense Category     | Description  | Allocated Between       | Basis of Allocation                 |
|----------------------|--|-------------------------|-------------------------------------|
| Indirect Labour      | Costs for labour used for the provision of distribution services that are not contractor costs.    | Indirect Capex and Opex | Proportion of direct expenditure    |
| Indirect Materials   | Costs for materials used for the provision of distribution services that are not contractor costs. |                         | Directly to indirect capex or opex. |
| Indirect Contractors | Costs resulting from services provided by external service providers.                              |                         |                                     |
| Indirect Other       | Costs that are not in one of the other expense categories.   |                         |                                     |

## 10 Cost Allocation and Capitalisation Diagrams

The general approach to cost allocation and capitalisation is presented in Figure 7. Please note that this does not describe the coding in the model to effect the cost allocation.

Figure 7. General Description of Cost Allocation and Capitalisation





## **11 Record Maintenance and Verification**

This section is to comply with section 3.2(a)(7) of the Cost Allocation Guidelines:

A description of how the DNSP will maintain records of the attribution or allocation of costs to, or between, categories of distribution services in order to enable any such attribution or allocation to be:

- A. Demonstrated to the AER, in accordance with clause 5.2 of these Guidelines; and
- B. Audited or otherwise verified by a third party, including the AER, as required.

and 5.2(a) of the Guidelines:

A DNSP must submit a supporting work paper to the AER whenever it provides financial information to the AER that has been prepared by applying the Cost Allocation Method, if requested by the AER.

PWC maintains financial source documentation and records in accordance with accounting standards and statutory requirements.

As noted in section 7, PWC's Financial Management System, Oracle, is used to:

- Capture its:
  - Direct opex
  - Repairs and maintenance
  - Corporate shared costs / overheads.
- Take inputs from its AMS.

Financial records are recorded and kept in PWC's Oracle General Ledger System. The system's outputs are used as the basis for the preparation of regulatory financial reports for submission to the AER. All financial records are kept in compliance with relevant regulatory and statutory requirements, and are subject to both annual internal and external audits.

This approach enables PWC to submit, in response to a request by the AER, a supporting work paper when providing financial information that has been prepared by applying this CAM.

## **12 Compliance**

This section is to comply with section 3.2(a)(8) of the Cost Allocation Guidelines:

A DNSP's proposed Cost Allocation Method must include the following information: ... [a] description of how the DNSP will monitor its compliance with the Cost Allocation Method and these Guidelines.

Monitoring compliance with the Rules and Guidelines is the responsibility of the Senior Manager Network Regulation and is achieved through both internal reviews, and internal and external audit programs.



## **13 Commencement Date**

This section is to comply with section 3.2(a)(9) of the Cost Allocation Guidelines:

A DNSP's proposed Cost Allocation Method must include the following information: ... [details] of the proposed date on which the Cost Allocation Method will commence, having regard for clause 4.1(d) of these Guidelines.

This CAM will commence on 1 July 2019, but will be used before this date:

- in the development of the regulatory proposal and supporting documents for the first regulatory control period<sup>10</sup>;
- in the response to the parts of Regulatory Information Notices that require it.

---

<sup>10</sup> 1 July 2019 to 30 June 2027

## Appendix 1: Corporate shared costs / overheads allocated to distribution services

This appendix details how PWC allocates its Corporate shared costs / overheads between its business units and therefore, in the case of the costs allocated to Power Networks, to its distribution services.<sup>11</sup> As noted in section 9, once PWC has allocated a share of its Corporate shared costs / overheads to its distribution services this share is allocated between its electricity distribution services.

| 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. |
|                      | FMS<br>GIS<br>Maximo<br>RMS  | Licence numbers     | Causal relationship. |
| IT                   | Business Intelligence system<br>Datamart system<br>EDMS  |                     |                      |
|                      | Internet administration<br>Intranet administration<br>Service desk<br>Small systems administration | Hardware            | Causal relationship. |
|                      | BSIM administrations   | FTE and Contractors | Causal relationship. |
|                      | Training   | FTE and Contractors | Causal relationship. |
|                      |  |                     |                      |
| HR                   |  |                     |                      |

<sup>11</sup> Costs are allocated to IES on a marginal basis to reflect to the not-for profit nature of the business and the Government funding arrangements for the provision of essential services to remote indigenous communities.

*Distribution Services Cost Allocation Method*

| Cost category   | Cost sub-category  | Allocator           | Justification  |
|-----------------|--|---------------------|--|
| Insurance       | HR Operations and Employee Relations   | FTE                 | Causal relationship.   |
|                 | Workcover Insurance  | FTE                 | Causal relationship.   |
|                 | General insurance  | Assets              | Causal relationship.   |
|                 | Vehicle insurance  | Vehicle numbers     | Causal relationship.   |
| Other Corporate | Facilities<br>Work, Health and Safety<br>Risk, Audit & Compliance<br>Sustainable Energy<br>Managing Director | FTE and Contractors | Causal relationship.   |
|                 | Procurement<br>Communications and Marketing<br>Board<br>Executive<br>Records Management                      | Revenue             | Causal relationship.   |
|                 | General Counsel  | Legal Instructions  | Causal relationship.   |
|                 | Design & Diagnostic<br>Ministerial and Client Relations<br>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)<br>Strategy & Planning   | Even                | Non-causal   |
|                 | Economics & Regulation   | Time                | Causal   |
|                 |  |                     |  |
|                 |  |                     |  |
|                 |  |                     |  |
|                 |  |                     |  |

## Appendix 2 - Compliance with Cost Allocation Guidelines, Ring-fencing Guideline and National Electricity Rules

### General obligations

| Rules     | CAG         | Requirements   | Addressed                         |
|-----------|-------------|--|-----------------------------------|
| 6.15.4(a) | 1.5, 3.1(a) | DNSP must develop a proposed CAM for submission to the AER             | This document                     |
| 6.15.4(b) | 1.5, 3.1(b) | DNSP's proposed CAM must give effect to and be consistent with the CAG | This document                     |
|           | 5.4         | DNSP must maintain current copy of approved CAM on its website         | Version history and date of issue |

### Contents of Cost Allocation Method

| CAG        | Requirements   | Addressed                                     |
|------------|--|---|
| 3.2(a)(1)  | Version number   | Version history and date of issue             |
| 3.2(a)(2)  | DNSP's commitment to history and date of issue   | Cover page. Version history and date of issue |
| 3.2(a)(3)  | Statement of nature, scope and purpose of document and way it is to be used  | Section 3.1                                   |
| 3.2(a)(3)A | Accountabilities for implementation  | Section 3.2                                   |
| 3.2(a)(3)B | Responsibilities for updating, maintaining and applying document and for internally monitoring and reporting its application                             | Section 12                                    |
| 3.2(a)(4)  | Description of corporate and operational structure   | Section 4                                     |
| 3.2(a)(5)  | Specification of service categories and types of persons to whom services provided   | Section 5                                     |
| 3.2(a)(6)  | Principles and policies for attributing costs to, and allocating costs between, categories of distribution services in accordance with clause 2.2 of CAG | Refer to separate table below                 |
| 3.2(a)(7)  | Description of how PWC will maintain records of attribution and allocation   | Section 11                                    |

## Distribution Services Cost Allocation Method

| CAG       | Requirements   | Addressed  |
|-----------|--|------------|
| 3.2(a)(8) | Description of how PWC will monitor compliance with CAM and Guidelines | Section 12 |
| 3.2(a)(9) | Commencement date  | Section 13 |

### Cost allocation principles and policies

| Rules         | RFG      | CAG         | Requirements  | Addressed                             |
|---------------|----------|-------------|---|---------------------------------------|
| 6.15.2(1)     |          | 2.2.1(a)    | <p>Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable:</p> <ul style="list-style-type: none"> <li>AER to replicate reported outcomes</li> <li>DNSP to demonstrate that it is meeting requirements</li> </ul> | Sections 8 and 9 and Appendix 1       |
|               |          | 2.2.1(b)(1) | Include specified information on directly attributable costs to enable AER to replicate reported outcomes   | Sections 7 and 8                      |
|               |          | 2.2.1(b)(2) | Include specified information on shared costs to enable AER to replicate reported outcomes  | Sections 7 and 9 and Appendix 1       |
|               |          | 2.2.2       | Attribute costs directly to, or allocated costs between, categories of distribution services based on substance of underlying transaction or event not legal form   | Sections 6, 7, 8 and 9 and Appendix 1 |
| 6.15.2(2)     | 3.2.2(a) | 2.2.3       | Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service  | Sections 6, 7 and 8                   |
| 6.15.2(3)(i)  |          | 2.2.4       | Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that: <ul style="list-style-type: none"> <li>Shared cost is immaterial</li> <li>Causal relationship cannot be established without undue cost or effort</li> </ul>                       | Sections 6, 7 and 9 and Appendix 1    |
| 6.15.2(3)(ii) |          |             | in which case may use non-causal allocator in specified circumstances   |                                       |

## *Distribution Services Cost Allocation Method*

| Rules     | RFG | CAG   | Requirements   | Addressed                             |
|-----------|-----|-------|--|---------------------------------------|
| 6.15.2(4) |     |       | Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator   | Sections 6 and 9 and Appendix 1       |
| 6.15.2(5) |     | 2.2.5 | Do not allocate the same cost more than once   | Sections 6 and 9                      |
| 6.15.2(6) |     | 2.2.6 | Detailed principles, policies and approach used to attribute costs directly to, or allocated costs between, categories of distribution services must be consistent with the Distribution Ring Fencing Guidelines | Sections 6 and 9 and Appendix 1       |
| 6.15.2(7) |     | 2.2.7 | Costs that have been attributed or allocated costs to distribution services must not be reattributed or reallocated to another service during the regulatory control period                                      | Sections 6, 7, 8 and 9 and Appendix 1 |

