

Attachment 2.2

Core Operations Cost Allocation
Methodology

Contents

1.	Background	2
2.	Purpose and scope	3
3.	Corporate and operational structure	4

4.	Principles and policies	6
5.	Systems to record costs	6
6.	Attribution and allocation of costs	7

1 Background

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

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

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

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

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

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

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

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

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

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

³ [AER Approved CAM](#)

⁴ National Electricity Rules (Northern Territory).

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

2 Purpose and scope

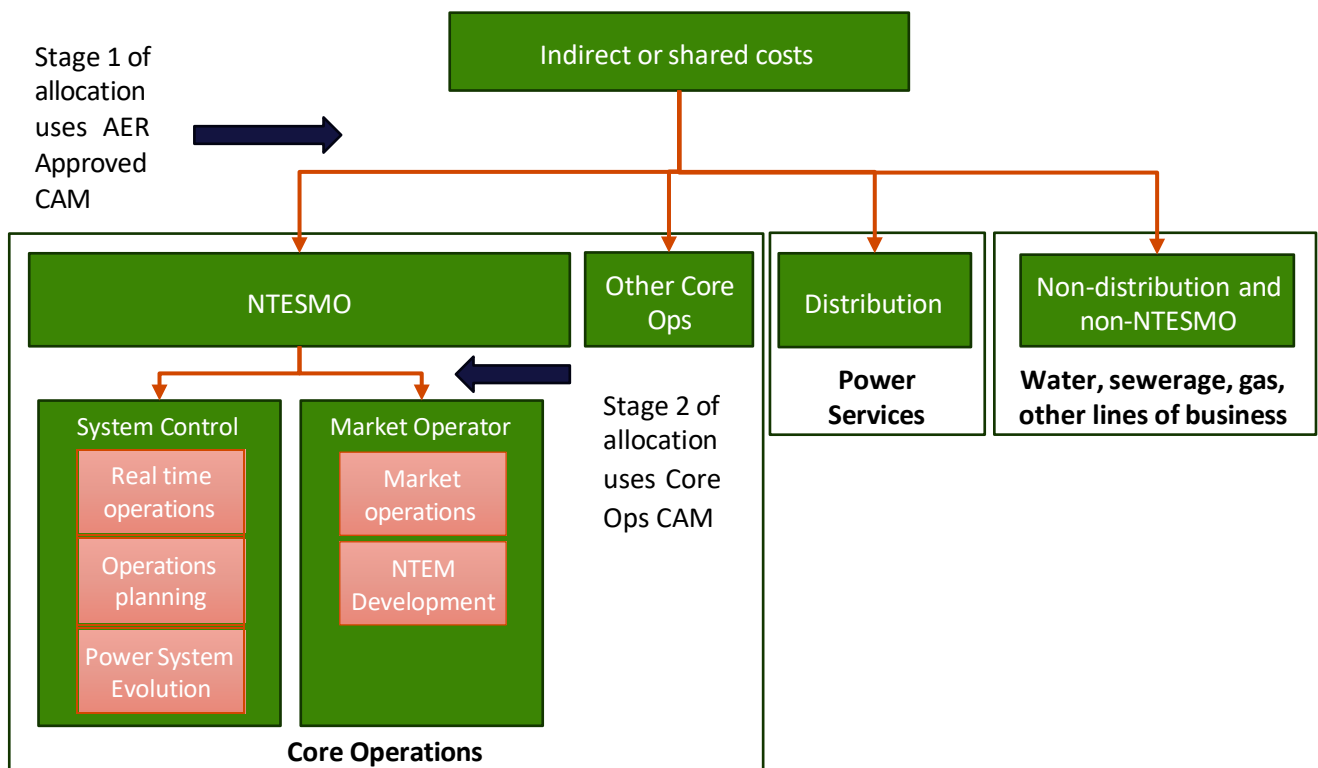
The purpose of the Core Ops CAM is to explain how the Core Operations business unit's indirect costs will be allocated for the purpose of calculating the system control and market operator charges. It should be noted that Core Ops CAM has not been used to allocate costs to and within Core Operations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

This document sets out the principles and policies for:

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

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

Figure 1: Illustration of Core Ops CAM



3 Corporate and operational structure

Corporate structure

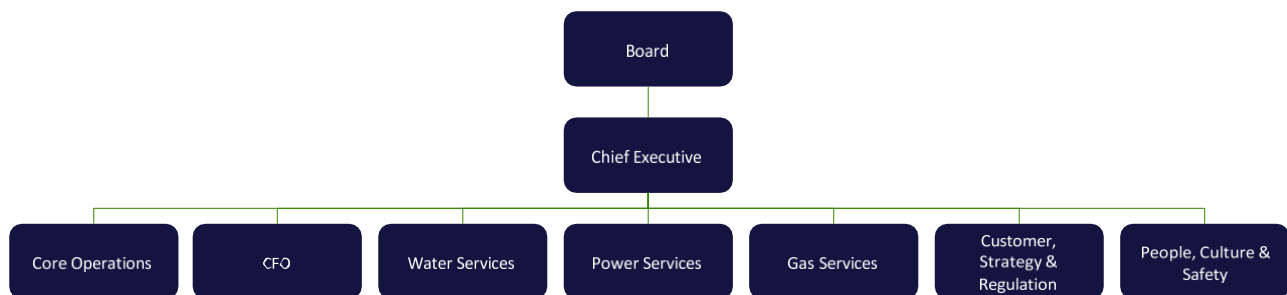
Power and Water is a multi-utility that provides electricity distribution services, electricity system control and market operation services, water services and wastewater services to the main population centres of the NT. Power and Water also supply gas to wholesale customers, including generators.

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

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

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

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



Operational structure

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

Figure 3: Core Operations business unit structure (as of September 2023)



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

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

System Control

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

Market Operator

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

Other functions within Core Operations include:

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

4 Principles and policies

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

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

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

5 Systems to record costs

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

Core Operations has the following categories of costs:

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

Power and Water's systems captures:

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

6 Attribution and allocation of costs

Direct costs

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

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

Table 1: Attribution of Direct Costs Core Operations

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

Indirect costs

Core Operations has certain indirect costs (primarily corporate costs) that cannot be directly attributed to the provision of a particular type of service.

The allocation drivers within the approved AER CAM are shown in table 2.

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

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

Stage 2 allocation

The second stage of Corporate CAM allocation is allocating the portion of costs from Stage 1 to the various Core Operations' entities, e.g. NTESMO, Metering, OT etc. This is currently allocated within the budget using FTE as a driver.

Stage 3 allocation

The final stage of the Corporate CAM allocation is allocating the portion of costs from Stage 2 between NTESMO sub-functions (e.g. System Control and Market Operator, regulated and unregulated) based on the activity allocator (Attachment 5.1). The sub-functions include operations planning, real time operations, power system evolution, market operations and NTEM reform services.

Power and Water Corporation

NT Electricity System and Market Operator

1800 245 092

market.operator@powerwater.com.au

ntesmo.com.au

NTESMO