

# Jemena Electricity Networks (Vic) Ltd

## Cost Allocation Methodology

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**Authorisation**

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**History**

Rev No	Date	Description of changes	Author
1.0	26 Feb 2010	First CAM version under AER Guidelines	Anton Murashev
2.0	July 2014	Update to include additional methodologies to allocate shared costs utilising time writing and employee survey information.	Anton Murashev
2.1	19 Nov 2014	Updated to include a commencement date	Matthew Serpell
3.0	27 Sep 2018	Updated to reflect changes in the regulatory regime, including: (i) the introduction of the ring-fencing guideline, (ii) introduction of the service classification guideline, and (iii) changes to the classification of services in the 2021-25 regulatory control period, and corporate reorganising of the Jemena business.  **** <b>WITHDRAWN</b> ****	Matthew Serpell / Eugene Whittaker
3.1	29 Mar 2019	Incorporates updates from version 3.0 and:	Matthew Serpell / Eugene Whittaker

		<ul style="list-style-type: none"> <li>(i) Added an explanation on the reporting and compliance with the ring-electricity distribution network ringfencing guideline in section 1,</li> <li>(ii) added a more detailed explanation of the treatment of directly attributable and allocated costs in section 3,</li> <li>(iii) Added new section 3.3.2.1 to outline the treatment of corporate overheads,</li> <li>(iv) Provided a network organisational chart in Appendix B, and</li> <li>(v) Added a compliance cross-check template at Appendix C.</li> </ul>	
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**Owning Functional Area**

Business Function Owner:	Financial Planning and Analysis
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**Review Details**

Review Period:	Revision Date/Last Review Date + 2 years
NEXT Review Due:	29 Mar 2021

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## GLOSSARY

commencement date	1 January 2021
Guidelines	Australian Energy Regulator, <i>Electricity distribution network service providers, Cost allocation guidelines</i> , June 2008
Ringfencing Guideline	Australian Energy Regulator, <i>Ring-fencing Guideline, Electricity Distribution, Version 2</i> , October 2017

## ABBREVIATIONS

AER	Australian Energy Regulator
CAM	Cost Allocation Methodology
CATS	Cross Application Timesheets
CFO	Chief Financial Officer
DNSP	Distribution Network Service Provider
ERP	Enterprise Resource Planning
JEM	Jemena Ltd
JEN	Jemena Electricity Networks (Vic) Ltd
NER	National Electricity Rules
SGID	State Grid International Development
SGSPAA	SGSP (Australia) Assets Pty Ltd
SPI	Singapore Power International
RIN	Regulatory Information Notice
WBS	Work Breakdown Structure

## OVERVIEW

Jemena Electricity Networks (Vic) Ltd (**JEN**) owns and operates the electricity distribution network covering the north-west area of metropolitan Melbourne. The network incorporates a mix of major industrial areas, residential growth areas, established inner suburbs and Melbourne International Airport. JEN is one of five licensed electricity distribution networks in Victoria, servicing over 330,000 customers through approximately 6,300KM of distribution system.

JEN is a 100 percent owned subsidiary of Jemena Ltd (**JEM**). JEM is a wholly owned subsidiary of SGSP (Australia) Assets Pty Ltd (**SGSPAA**), which is in turn 60 per cent owned by State Grid International Development (**SGID**) and 40 per cent owned by Singapore Power International (**SPI**). (See Appendix A for a chart of the SGSPAA group structure).

### **Date of commencement**

This Cost Allocation Methodology (**CAM**) will commence on 1 January 2021 (**commencement date**) unless the Australian Energy Regulator (**AER**) sets a different date as outlined in section 4.1(d) of the Electricity distribution network service providers, Cost allocation guidelines (**Guidelines**), in which case the commencement date will be set on that date given by the AER.

This CAM will remain in place until replaced with a new version approved by the AER.

## 1. NATURE, SCOPE AND PURPOSE

The purpose of this CAM is to establish a method of attributing or allocating costs to distribution services provided by JEN. This document is completed in accordance with but not limited to the following regulatory requirements:

- Sections 2.2 and 3.2 of the Guidelines, which outline the requirements applicable to a Distribution Network Service Provider (**DNSP**), includes the development of principles and policies for attributing costs or the allocation of costs between the distribution services categories.
- Clause 6.15.1 of the NER requires JEN to comply with the AER approved CAM for relevant regulatory reporting purposes, as noted in Section 5.1(b) of the Guidelines.

In addition, the cost allocation principles, policies and approach are to be consistent with the ring-fencing guidelines set out in clause 6.17 of the National Electricity Rules (**NER**). This CAM complies with the current ring fencing requirements as set out in the Electricity Distribution Ring-fencing Guideline (**Ringfencing Guideline**) made under clause 6.17.2 of the NER.

JEN reports compliance with the cost allocation and attribution requirements (section 3.2.2 of the Ringfencing Guideline) as a part of the Ringfencing Guideline annual compliance report. The Ringfencing Guideline annual compliance report is provided to the AER and accompanied by an assessment of compliance by a suitably qualified independent authority in accordance with section 6.2.1(c) of the Ringfencing Guideline requirements.

## 2. DISTRIBUTION SERVICES

JEN provides distribution services which includes standard control services, alternative control services and, negotiated services and other unregulated services. JEN records and reports its costs between these categories of services. These services are explained below:

1. **Standard Control Services** include the provision of network capability and maintenance of the distribution network. They cover activities such as asset maintenance, vegetation control and restoration of supply. The key feature of these services is that they are provided by way of a shared network. These services are provided to all residential, small business and large business end-users of the network. The costs for providing these services are recovered via monthly electricity tariffs that have been approved by the AER.
2. **Alternative Control Services** include user requested services and cyclically charged services as outlined in the service classification section of the AER's electricity distribution price review determination. The amount of the relevant charges are approved by the AER.
3. **Negotiated Distribution Services** include services as outlined in the service classification section of the AER's electricity distribution price review determination. The costs of providing these services are negotiated between JEN and its customer(s), subject to a negotiation framework that is approved by the AER.
4. **Unregulated services** include services that are:
  - not classified in the service classification section of the AER's electricity distribution price review determination; or
  - may be explicitly identified as unregulated services in the service classification section of the AER's electricity distribution price review determination,

for which JEN sets prices without involvement from the AER.

### 3. COST ALLOCATION PRINCIPLES AND POLICIES

#### 3.1 OVERVIEW OF APPROACH

JEN utilises an Enterprise Resource Planning (**ERP**) corporate business system to capture, control and report its costs. Controls within the ERP system ensures that costs are reported only once.

Costs are recorded at an activity level in Jemena’s ERP system. Activity costs are rolled up to a Work Breakdown Structure (**WBS, Project**) level which tracks:

- the nature of the accounting treatment—being capital or operating expenditure; *and*
- the type of distribution service being provided.

JEN reports its costs in a number of categories, and assigns costs using direct attribution and allocation techniques. A summary of this approach is outlined in Table 3–1.

**Table 3–1: Summary of cost categories and assignment methodology**

Cost category	Assignment method	
	Direct attribution	Allocated
<b>Directly attributable</b>		
Labour	✓	
Subcontractor	✓	
Materials	✓	
Fleet operating costs	✓	
Other	✓	
<b>Allocated costs</b>		
Network overheads		✓
– network activities		
– network support activities		
Corporate overheads		✓

Most of the costs recorded in the ERP system are directly attributable to individual Projects (and therefore distribution services). Where costs cannot be directly attributed to a distribution service, an allocation of costs takes place.

#### 3.2 DIRECTLY ATTRIBUTABLE COSTS

Costs that can be directly attributable to specific service classifications are directly recorded to that service classification—via a WBS—using our ERP system capability.

Costs that are directly attributed and their basis for attribution are explained in Table 3–2.

**Table 3–2: Directly attributable costs**

Direct cost type	Basis for attribution
Labour	Labour costs are assigned using time writing (quantity) at a standard labour rate through the Cross Application Timesheets ( <b>CATS</b> ) module of our ERP system to a relevant WBS. Standard labour rates are determined based on the labour costs within an employment group, divided by the productive hours—inclusive of on costs <sup>1</sup> .
Subcontractors	External contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. Subcontractor costs are receipted against a purchase order and then directly assigned to the relevant WBS.
Materials	Material costs include stock items distributed through JEN's warehousing and materials purchased directly from an external party via purchase order processing system. Material costs are directly assigned to the relevant WBS.
Fleet operating costs <sup>2</sup>	A standard fleet operating cost rate is calculated based on total fleet costs divided by total productive hours. This rate is then applied to actual time written hours to determine the total fleet operating costs. Fleet operating costs are then directly attributed to the relevant WBS.
Other	Other costs which can be directly attributable to a WBS, for example, consumables, consulting, training, accommodation, etc. are directly attributed to a distribution service via our purchase order processing system.

### 3.3 ALLOCATED COSTS

Allocated costs are costs that cannot be assigned directly to a Project, in most cases they are ‘shared’ in nature. The costs are captured in our ERP system and then allocated to a Project. Causal allocators are created consistent with well accepted causal methods to apportion the costs.

#### 3.3.1 NETWORK OVERHEADS

Costs that fall into the category of network overheads is further classified into network activities and network support activities.

##### 3.3.1.1 Network activity costs

Network activity costs are allocated against JEN's program of works using ERP functionality known as costing sheets. Table 3–3 below describes how the unit recovery rates are determined which are then applied to volumes to allocate costs to each Project.

<sup>1</sup> On costs includes labour related costs such as workcover and payroll tax.

<sup>2</sup> We consider these costs to be directly attributable because they are variable in nature (that is, driven by the volume of activity), unlike allocated costs—see section 3.3—which are fixed in nature.

**Table 3–3: Network activity costs by category**

Category	Description
Stores	Stores function includes the expenditure for operating the store facilities. A stores percentage is calculated by dividing the total stores costs over the materials expenditure. The stores costs are then allocated based on the stores percentage amongst various service classifications.
Direct Support	Direct Support costs include project management and program management. A Direct Support cost percentage is calculated by dividing the total Direct Support costs over the directly attributable costs. The direct support costs are then allocated based on the direct support percentage amongst various service classifications.
Property	Property costs include rental, rates, utilities and security. A property cost percentage is calculated by dividing the total depot property costs over the directly attributable costs. The property costs are then allocated based on the direct support percentage amongst various service classifications.
Other	Other costs includes the remaining costs that do not fall into the above cost categories, for example, travel. A Other cost percentage is calculated by dividing the total remaining costs over the directly attributable costs. The other costs are then allocated based on the other percentage amongst various service classifications.

### 3.3.1.2 Network support activities

JEN also incurs network support costs. These costs cannot be exclusively linked to specific service classifications, but are incurred in order for JEN to provide distribution services. Network support activity costs are allocated on causal basis in proportion to direct costs for each service classification. A summary of JEN's network support activities is provided in Table 3–4.

**Table 3–4: Network support activities**

Description
<ul style="list-style-type: none"> <li>• Perform network management activities relating to the asset</li> <li>• Perform design and service engineering, technical asset management, connections, compliance and risk activities relating to the asset</li> <li>• Perform activities such as developing marketing strategies and programs, planning on strategic development projects with land and property developers, evaluating infill project feasibility relating to asset</li> </ul>

### 3.3.2 CORPORATE OVERHEAD COSTS

JEN also incurs corporate overhead costs. These costs cannot be exclusively linked to specific service classifications, but are necessarily incurred in order for JEN to be able to provide distribution services. These costs are captured in cost centres and then allocated on causal basis in proportion to direct costs for each service classification.

A summary of JEN's shared costs is provided in Table 3–5.

**Table 3–5: Assignment of allocators to corporate overhead cost items**

Description
<ul style="list-style-type: none"> <li>• Executive oversight and board liaison on asset and financial management and stakeholder relations</li> </ul>

Description
<ul style="list-style-type: none"> <li>• Government interaction and energy policy</li> </ul>
<ul style="list-style-type: none"> <li>• Management of Jemena’s fund raising, debt and equity holder relations and treasury functions</li> <li>• Management of financial and management reporting (internal and external) and regulatory reporting. Budgeting, forecasting (short and long term) and corporate cost allocations</li> <li>• Management of indirect and direct tax compliance and planning, accounts payable, accounts receivable and payroll</li> <li>• Management of internal and external audits</li> <li>• Management of shared IT infrastructure and services</li> <li>• Procurement of insurance and management of risk, including for bushfire and other natural disasters</li> </ul>
<ul style="list-style-type: none"> <li>• Management and legal advice on regulation, environmental law, employment law, property law, and company law, including the roles of company secretary and commercial procurement</li> </ul>
<ul style="list-style-type: none"> <li>• Management of recruitment and remuneration benefit services</li> <li>• Management of corporate communications to all internal stakeholders</li> <li>• Management of employee HSE training, performance, quality and adverse impact on the environment</li> </ul>
<ul style="list-style-type: none"> <li>• Management of commercial strategies, including customer relationship management</li> <li>• Management of regulatory strategy and fulfilment of obligations, price reviews, consultations and relationships with governments, federal and state regulators, rule makers, and market operators</li> </ul>

3.3.2.1 Expensing of corporate overheads

JEN will expense its corporate overheads for regulatory purposes consistent with changes to its accounting practice from the commencement date.

## 4. ACCOUNTABILITIES AND RESPONSIBILITIES

The CAM will be used for all regulatory reporting purposes. It will primarily be used for annual Regulatory Information Notice (**RIN**) reporting and for determining the appropriate costs to support and substantiate future price submissions to the AER.

JEN is committed to the ongoing application of the CAM and will be the primary responsibility of Jemena's General Manager , Financial Planning and Analysis who will:

- conduct periodic reviews of the CAM;
- liaise with the Chief Financial Officer (**CFO**), Regulation team, Business Unit Managers, Other Finance General Managers and their staff where issues are raised; and
- act as the reference point for all queries regarding the CAM in relation to Regulatory matters.

## 5. RECORD MAINTENANCE

All relevant documentation namely the final approved RIN responses, supporting audit opinions and other approvals, together with all the records supporting the allocation of costs (direct or shared) that are maintained within Jemena's accounting and information system databases.

These records are supported by the company's comprehensive record protection and retention procedures and practices, as well as the relevant data recovery and back up processes.

Information contained in these databases is provided to auditors upon request to enable audits of JEN's RIN responses.

## 6. COMPLIANCE AND MONITORING

### 6.1 DAY TO DAY USE OF THE CAM

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The CAM utilises the WBS code data derived from the time writing process and the charging of costs to jobs that are linked to these WBS codes. Some direct costs that are assigned to the service categories from the CAM are based on costs reported in the SAP. The quality of this data, which is also used extensively in internal management reporting and is an integral part of the SAP financial data that is used for the preparation of the businesses statutory accounts. The CAM is constantly monitored by management and accounting staff as part of the regular business reporting and financial analysis processes in SGSPAA Group. Both external and internal audits are conducted over the processes used to produce the costs and any material discrepancies or abnormalities are reported to management for rectification. Follow up procedures apply to ensure appropriate action is undertaken within agreed timeframes.

### 6.2 USE OF THE CAM IN REGULATORY REPORTING

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JEN's RIN responses are reviewed and endorsed by JEN management (by way of a statutory declaration from the Managing Director) and are subject to an explicit requirement that the financial statements be prepared in accordance with the approved CAM. In addition RIN responses will also be reviewed by JEN's independent auditors.

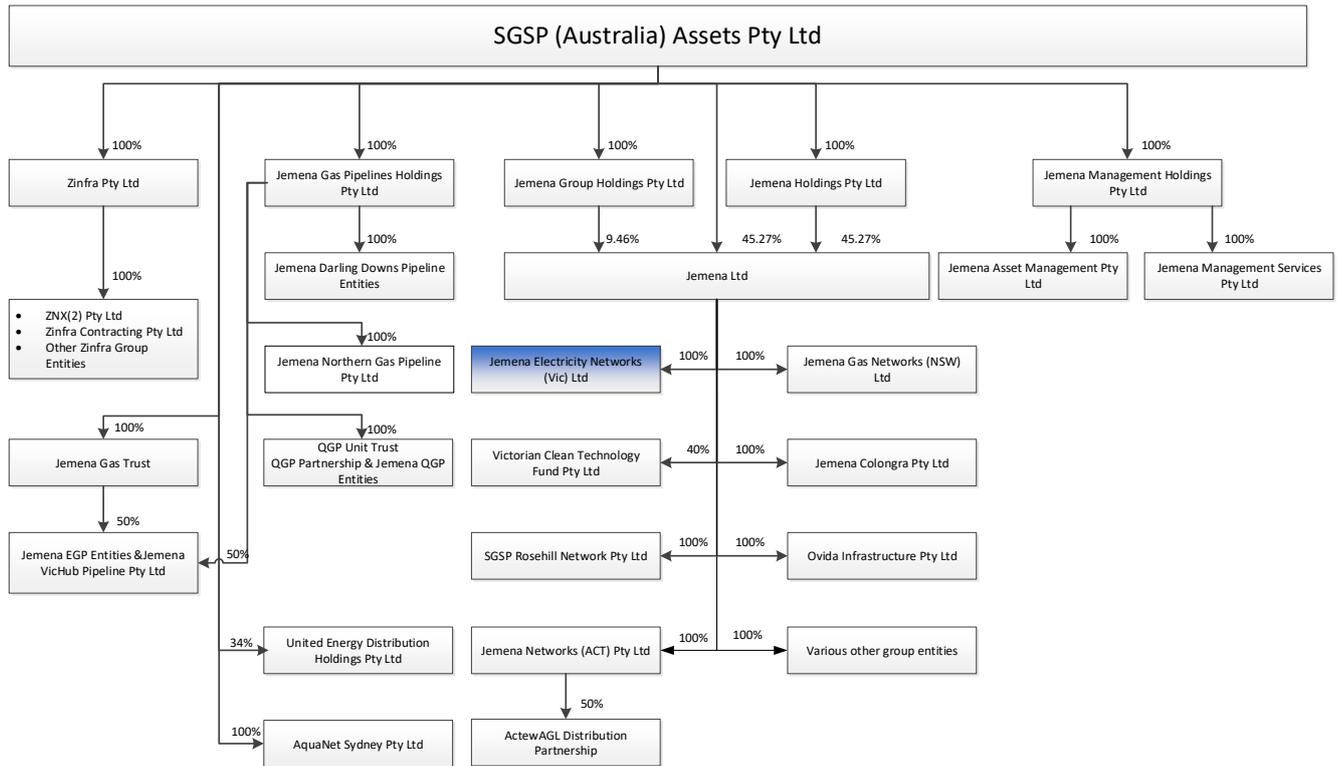
Through the management review and the audit processes JEN will satisfy itself whether the costs have been correctly assigned to the service categories in a manner which reflects any methodology approved by the AER.

**Appendix A**  
**SGSPAA Group Structure**

## A1. SGSPAA GROUP STRUCTURE

JEN's location within the SGSPAA group structure is highlight in blue.

**Figure A1–1: SGSPAA group structure**

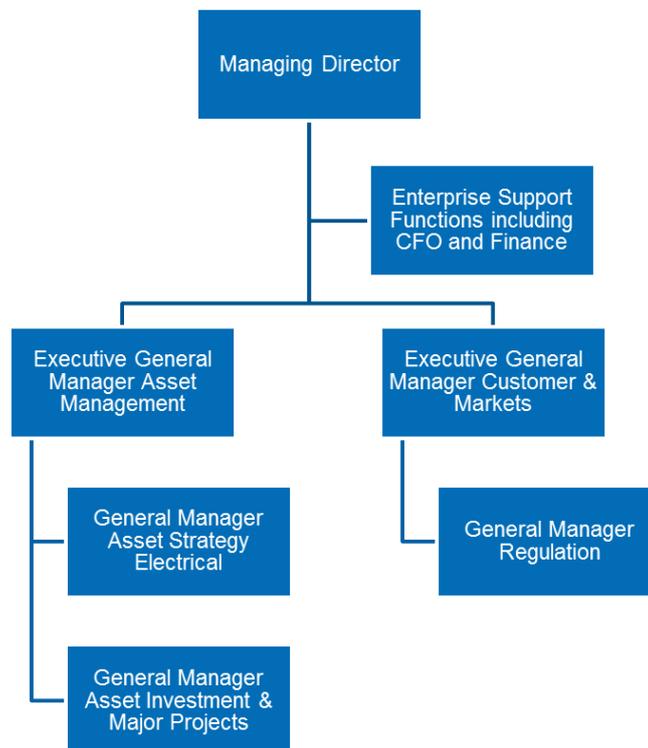


**Appendix B**  
**Jemena Electricity Networks -**  
**Organisational Structure**

## B1. JEMENA ELECTRICITY NETWORKS - ORGANISATIONAL STRUCTURE

While JEN owns the electricity network assets, enterprise support services such as legal, finance and human resources are provided to JEN by Jemena Asset Management Pty Ltd. Jemena Asset Management Pty Ltd's operational structure in relation to JEN is set out in Figure 6–1.

**Figure 6–1: Jemena Asset Management Pty Ltd's operational structure in relation to JEN**



**Appendix C**  
**Compliance with Rules and Guidelines**

## C1. COMPLIANCE WITH NATIONAL ELECTRICITY RULES

NER	Guideline	Requirement	Relevant section of CAM
6.15.2(1)	2.2.1(a)	Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable: <ul style="list-style-type: none"> <li>– AER to replicate reported outcomes</li> <li>– DNSP to demonstrate that it is meeting requirements</li> </ul>	See section 3 of this document
	2.2.1(b)(1)	Include specified information on directly attributable costs to enable AER to replicate reported outcomes	See section 3.2 of this document
	2.2.1(b)(2)	Include specified information on shared costs to enable AER to replicate reported outcomes	See section 3.3 of this document
6.15.2(2)	2.2.2	Attribute costs directly to, or allocate costs between, categories of distribution services based on substance of underlying transaction or event not legal form	See section 3.2 and 3.3 of this document.
6.15.2(3)(i)	2.2.3	Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service	See section 3.2 of this document.
6.15.2(3)(ii)	2.2.4	Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that: <ol style="list-style-type: none"> <li>1. Shared cost is immaterial</li> <li>2. Causal relationship cannot be established without undue cost or effort in which case may use non-causal allocator in specified circumstances</li> </ol>	See section 3.3 of this document.
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	See section 3 of this document.
6.15.2(5)	2.2.5	Do not allocate the same cost more than once	See section 3.1 of this document
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 Guideline	See section 3 of this document

NER	Guideline	Requirement	Relevant section of CAM
6.15.2(7)	2.2.7	Costs that have been attributed or allocated to distribution services must not be reattributed or reallocated to another service during the regulatory control period	See section 3.1 (single posting of costs) 3.2 and section 3.3 of this document

## C2. COMPLIANCE WITH COST ALLOCATION GUIDELINE

Cost Allocation Guidelines <sup>3</sup>	Relevant section of CAM
(1) A version history and date of issue for the document	JEN maintains a list of all AER approved CAM versions in the history section of this document outlined on page 2.
(2) A statement of the nature, scope and purpose of the document and the way in which it is to be used by the distributor	See section 1 of this document
(3) Details of the accountabilities within the distributor for the document in order to set out clearly: A. the distributor's commitment to implementing the CAM; and B. responsibilities within the distributor for updating, maintaining and applying the CAM and for internally monitoring and reporting on its application	See section 4 of this document
(4) A description of the distributor's corporate and operational structure to enable the AER to understand how the distributor is organised to provide its distribution services	See Appendix A for the corporate structure and Appendix B for the operational structure
(5) A specification of the categories of distribution services that the distributor provides to which costs are to be attributed or allocated and the types of persons to whom those services are provided	See section 2 of this document
(6) The distributor'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 the Guidelines. For the avoidance of doubt, this includes the attribution or allocation of costs relating to any related party transactions	See section 3 of this document
(7) A description of how the distributor will maintain records of the attribution or allocation of costs to, or between, categories of distribution services 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	See section 5 of this document
(8) A description of how the distributor will monitor its compliance with the CAM and the Guidelines	See section 6 of this document
(9) Details of the proposed date on which the CAM will commence, having regard for clause 4.1(d) of these Guidelines	See the section titled 'Date of commencement' on page vii of this document.

<sup>3</sup> Clause 3.2(a) of AER (June 2008) *Electricity Distribution Networks Services Providers Cost Allocation Guidelines* p. 12-13