

Jemena Gas Networks (NSW) Ltd

2020-25 Access Arrangement Proposal

Attachment 6.5

Cost allocation methodology



Jemena Gas Networks (NSW) Ltd

JGN Cost Allocation Methodology

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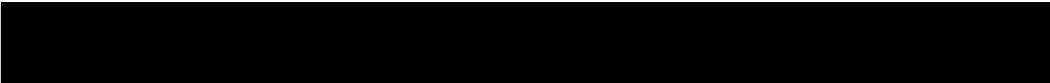
JGN Cost Allocation Methodology

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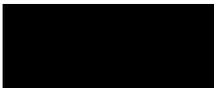
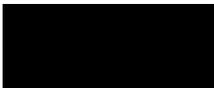
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Authorisation

Name	Job Title	Date	Signature
Reviewed by:			
			
			
Approved by:			
			

History

Rev No	Date	Description of changes	Author
1	9 Oct 2018	New	
2	29 Mar 2019	Incorporates updates from version 1.0 and: (i) added a more detailed explanation of the treatment of directly attributable and allocated costs in section 3. (ii) Added new section 3.3.2.1 to outline the treatment of corporate overheads. (iii) Provided a network organisational chart in Appendix A.	

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:	31 March, 2021

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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
JGN	Jemena Gas Networks (NSW Ltd
NGR	National Gas Rules
NGL	National Gas Law
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 Gas Networks (NSW) Ltd (**JGN**) owns and manages the 24,000 kilometres of pipelines and associated equipment that distribute natural gas to almost 1.4 million homes and businesses across New South Wales.

JGN is a 100 per cent 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**).

1. NATURE, SCOPE AND PURPOSE

The purpose of this CAM is to establish a method of attributing or allocating costs to services provided by JGN. The cost allocation principles, policies and approach are to be consistent with:

- Part 9 Division 8, rule 93(2) of the NGR which provides that costs directly attributable to reference services and pipelines services must be allocated to those services; and
- the ring-fencing provisions set out in section 141 of the NGL which requires JGN to prepare and maintain separate accounts in respect of pipeline services provided by means of a covered pipeline, as well as a consolidated set of accounts in respect of the whole of the business of JGN.

2. SERVICES

JGN provides pipeline services, which includes a single haulage reference service and non-reference services; and non-pipeline services which are unregulated. JGN records and reports its costs between these categories of services. These services are explained below:

1. **Haulage Reference Service** includes the services outlined in the services policy section of the JGN Access Arrangement as approved by the AER for the relevant regulatory control period, including:
 - a) the transportation of gas by the Service Provider through the Network to a single eligible delivery point for use and consumption within the premises served by that Delivery Point;
 - b) meter reading and associated data activities, and the provision and maintenance of a standard metering installation at the delivery point as appropriate for the required capacity and meter reading frequency;
 - c) ancillary activities, as may be requested by users, as outlined in the Reference Tariff Schedule of JGN's Access Arrangement. The amount of the relevant charges are approved by the AER.
2. **Non-Reference Services** include services outlined in the services policy section of JGN's Access Arrangement as approved by the AER for the relevant regulatory control period. These services currently include:

Interconnection of Embedded Network Service

- a) The Interconnection of Embedded Network Service is a service provided by the Service Provider to an Embedded Network Operator for the establishment of a single Delivery Point on an Embedded Network connected to the Network, on the terms and conditions specified by the Service Provider upon application for this service

Negotiated Services

- a) Where a Prospective User has specific needs which differ from those which would be satisfied by the Reference Service or the Interconnection of Embedded Network Service, the Prospective User may seek to negotiate different terms and conditions as a Negotiated Service and enter into a Negotiated Service Agreement with the Service Provider.

3. **Non-pipeline services** include services that are offered by JGN that are not within the scope of JGN's Access Arrangement as approved by the AER for the relevant regulatory control period.

3. COST ALLOCATION PRINCIPLES AND POLICIES

3.1 OVERVIEW OF APPROACH

JGN 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 our 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 service being provided.

JGN 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.

As there is no cost allocation methodology guideline for gas businesses, JGN has taken into account the AER’s guidance to electricity distribution businesses as set out in “*Electricity distribution network service providers, Cost allocation guidelines*” published June 2008 (in particular sections 2.2 and 3.2) which will also provide for consistency in allocating enterprise costs.

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

Cost category	Assignment method	
	Direct attribution	Allocated
Directly attributable		
Labour	✓	
Subcontractor	✓	
Materials	✓	
Fleet operating costs	✓	
Other	✓	
Allocated costs		
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 pipeline services). Where costs cannot be directly attributed to a service, an allocation of costs takes place.

3.2 DIRECTLY ATTRIBUTABLE COSTS

Costs that can be directly attributable to specific services are directly recorded to that service via a WBS using our ERP system capability. This is in accordance with rule 93(2) of the NGR, which provide that directly attributable costs to reference services and other services are to be allocated to those particular services.

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 (CATS) 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 ¹ .
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 JGN’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 ²	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 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 are further classified into network activities and network support activities.

¹ On costs includes labour related costs such as Workcover and payroll tax.

² 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.

3.3.1.1 Network activity costs

Network activity costs are allocated against JGN’s directly attributable costs 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.

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 services.
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 services.
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 services.
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 services.

3.3.1.2 Network support activities

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

Table 3–4: Network support activities

Description
<ul style="list-style-type: none"> • Perform network management activities relating to the JGN asset • Perform design and service engineering, technical asset management, connections, compliance and risk activities relating to the asset • 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

3.3.2 CORPORATE OVERHEAD COSTS

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

A summary of JGN’s shared costs is provided in Table 3–5.

Table 3–5: JGN Assignment of allocators to shared cost items

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

3.3.2.1 Expensing of corporate overheads

JGN 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.

JGN 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 JGN's RIN responses.

6. COMPLIANCE AND MONITORING

6.1 DAY TO DAY USE OF THE CAM

The CAM utilises the WBS code data derived from the ERP system. 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

JGN's RIN responses are reviewed and endorsed by JGN 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 JGN's independent auditors.

Through the management review and the audit processes JGN 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

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

Figure A1–1: SGSPAA group structure

