

Jemena Electricity Networks (Vic) Ltd

2016-20 Electricity Distribution Price Review Regulatory Proposal

Attachment 7-9

JEN cost allocation methodology

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Cost allocation methodology

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1 Version History

In accordance with clause 3.2(a) of the Cost Allocation Guidelines (**Guidelines**), Jemena Electricity Networks (Vic) Ltd (**JEN**) will maintain a listing of all AER approved Cost Allocation Methodology (CAM) versions.

Table 1-1: Version History

Version Number	Date	Details of changes
1	26 Feb 2010	First CAM version under AER Guidelines
2	July 2014	Second CAM version under AER Guidelines Update to include additional methodologies to allocate shared costs utilising time writing and employee survey information.
2.1	19 Nov 2014	Updated to include a commencement date



2 Introduction

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 300,000 customers through approximately 11,000KM of distribution system.

JEN 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**).

On 3 January 2014 SGID, a subsidiary of State Grid Corporation of China (**SGCC**) successfully acquired 60% of Singapore Power International Australia Assets Pty Ltd (**SPIAA**), the ownership of SGSPAA Group changed from 100% SPI to now 60% SGID and 40% SPI. The Australian parent company name was changed from SPIAA to SGSPAA.

The change in ownership has not affected the operational structure and processes of JEN. Refer to Appendix 1 for the corporate structure of SGSPAA Pty Ltd, which includes JEN and JEM.



3 Date of Commencement

This CAM will commence on 1 January 2015 unless the AER sets a different date as outlined in section 4.1(d) of the Guidelines, in which case the commencement date will be set on that date given by the AER. This CAM will remain in place until JEN and the AER agree on a replacement version.



4 Nature, scope and purpose

The purpose of this CAM document is to establish a method of attributing or allocating costs to 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 Victorian DNSP, this includes the development of detailed 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 NER. The CAM therefore complies with previous jurisdictional ring fencing requirements and will continue to do so until such time as these are replaced by the AER's new distribution ring fencing guidelines, after which time JEN will ensure that the CAM complies with the requirements of the final Ring-Fencing Guideline once it is published.



5 Distribution services

JEN provides distribution services, including standard control services, alternative control services, negotiated services and other unregulated services. JEN allocates its costs between all these categories of services, these services are explained below;

Standard Control Services include the provision of network capability and maintenance of the distribution network. They cover services 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.

Alternative Control Services include user-pays services, such as disconnections and reconnections for existing sites, service truck visits, covering of low voltage mains, and elective underground services. The costs of providing these services are generally recovered by user-pays fees or charges that apply to the specific customer requiring the service, with the amount of the relevant charges being approved by the AER.

Negotiated Distribution Services include large-scale, complex services, such as installation of new public lighting assets. The costs of providing these services are negotiated between JEN and the customer(s), subject to a negotiation process (framework) that is approved by the AER.

Unregulated services include services that are provided in a contestable market, for which JEN sets prices without involvement from the AER.



6 Cost allocation principles and policies

6.1 Overview of approach

JEN utilises the SAP Enterprise Resource Planning (**ERP**) corporate business system to capture, control and report its costs at general ledger account number level through the use of cost centres and projects.

JEN also uses reporting application Business Intelligence (**BI**) for reporting and analytical purposes. SAP and BI are integrated systems; therefore the data stored in both applications are the same.

Much of the data in these systems is directly attributable to individual service classifications.

6.2 Directly attributable costs

Costs that are directly attributable to specific service classifications are directly allocated to that service classification via SAP.

Costs captured in projects are assigned using activity based cost collectors known as Work Breakdown Structure (**WBS**). Each WBS is referenced to a specific project code that corresponds to an activity type. The activity type identifies the nature of the works carried out being capital, operating or maintenance and is used to identify the type of service being provided. As each WBS is generally unique to the service provided it is used to directly assign costs to JEN's distribution service classifications. There are instances where costs captured in a WBS may relate to more than one distribution service classification. In this instance, a non-causal allocator based on distribution service classification revenue as a proportion of total distribution service revenue may be used to allocate costs to distribution service classification.

Where cost centre costs are specific to and can be identified as belonging to a specific service classification, JEN considers these to be directly attributable costs. These costs may not be assigned directly to an activity through a WBS, but can be directly attributed to activities within a specific service classification. Costs that are directly attributable and their drivers are further explained in Table 5-1.

Table 5-1: Directly Attributable Costs

Direct Cost Type	Basis Of Allocation
Labour	Labour costs are assigned using time writing through the SAP Cross Application Timesheets (CATS) module to the relevant WBS. Labour costs allocated to these unique project codes can be traced back to the business unit that incurred these costs. The labour rate represents an employee's labour rate plus on-costs and is split between normal and overtime. A standard labour rate is calculated based on labour cost bands driven by business units and skillsets.
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 the outstanding purchase order and 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 SAP purchase order processing system. Material costs are directly assigned to the relevant WBS.
Store Recoveries	Assigned based on materials requisitioned out of stores. Allocated based on a fixed percentage of store recovery to reflect the cost of running a warehouse.
Fleet and Major Equipment	All time writing hours where fleet use is indicated are allocated with an additional fleet amount. The fleet rate assigned is based on a standard fleet and major equipment rate and offsets against the cost centres which own the vehicles.
Property Costs	The total cost of running each property is calculated. Total cost includes rental, rates and security. A portion based on square metre usage is allocated towards logistics to be recovered via store recoveries above. The remaining site / property running costs are assigned using a full time employee (FTE) based rate and applied via costing sheets against all direct costs on a project.
Direct Support	Direct support costs that are not assigned directly to a project are recovered using costing sheets. Costing sheets are based on actual time writing results.
Non Labour Recoveries	The remaining direct costs from cost centres that do not fall into the above cost types are allocated to projects via recovery rates applied through costing sheets. The non-labour recovery rate for capex costs is determined by the proportion of overheads to direct capex. Similarly, the non-labour recovery rate for opex costs is determined by the proportion of overheads to direct opex costs.

6.3 Shared costs

In addition to direct costs, JEN also incurs shared costs. These costs cannot be exclusively linked to specific service classifications, but need to be incurred in order for JEN to be able to provide distribution services. These costs therefore need to be assigned to distribution service classifications via the use of specific allocators.

Similar to direct costs, shared (or indirect) costs are captured in cost centres at general ledger account level.

6.3.1 Shared cost summary

A summary of JEN's shared costs is provided in Table 5-2.

Table 5-2: JEN Assignment of allocators to cost items

Cost Item	Description	Cost Relationship	Allocator	Services Allocated To
Residual Office of the CEO costs	<ul style="list-style-type: none"> Executive oversight and board liaison on asset and financial management and stakeholder relations. 	Shared - Causal	Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated
Residual Legal and Secretarial costs	<ul style="list-style-type: none"> Management and advice on economic regulation, environmental law, employment law, property law, and company law, including the role of company secretary. 	Shared - Causal	Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated
Residual Insurance costs	<ul style="list-style-type: none"> Procurement of insurance and management of risk, including for bushfire and other natural disasters. 	Shared - Causal	Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated
Residual Finance costs	<ul style="list-style-type: none"> Executive oversight of financial reporting, management, and fund raising. Management of financial and management reporting (internal and external) and regulatory reporting. Management of Jemena's fund raising, debt and equity holder relations and treasury functions. Management of planning functions, including finance strategy, budgeting, forecasting and asset valuation. Management of indirect and direct tax compliance and planning. Management of finance systems, financial accounting, accounts payable, accounts receivable and payroll. Business Partner for business planning, support for regulatory and information services, ESF cost centre management – budgeting, forecasting and corporate cost allocations. 	Shared - Causal	Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated

Cost Item	Description	Cost Relationship	Allocator	Services Allocated To
	<ul style="list-style-type: none"> Management of internal audits. Management of business planning and continuous improvements, including business re-organisation costs. 			
Residual Human Resources costs	<ul style="list-style-type: none"> Management of recruitment and remuneration benefit services. Management of corporate communications to all stakeholders, including customers, employees, neighbours, state and federal governments and regulators. Management of employee HSE training, performance, quality and adverse impact on the environment. 	Shared - Causal	Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated
Residual Non-Network IT Support costs	<ul style="list-style-type: none"> Provision and management of IT infrastructure and services. 	Shared - Causal	Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated
Residual Regulatory costs	<ul style="list-style-type: none"> Management of regulatory obligations, price reviews, consultations and relationships with governments, regulators and market operators. 	Shared - Causal	Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated
Residual Asset Management costs	<ul style="list-style-type: none"> Perform leadership activities that are directly attributable to the JEN asset such as asset and financial management and stakeholder relations. Perform network management activities relating to the 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 	Shared - Causal	Time writing / FTE survey/ Proportion of direct costs for each applicable service classification to total direct costs.	Standard Control Alternative Control Negotiated Other Unregulated

Cost Item	Description	Cost Relationship	Allocator	Services Allocated To
	<p>developers, evaluating infill project feasibility relating to asset.</p> <ul style="list-style-type: none"> Perform activities such as dealing with retailers on contractual issues, industrial clients on contractual issues, access to the network issues, volume forecasting and pricing under tariff guidelines. Perform activities involving billing, management, customer service including complaints and enquiries, managing meter services and providing business requirements for information systems. 			

6.3.2 Shared costs allocation

JEN's shared costs, as indicated in Table 5-2, are allocated to standard control, alternative control, negotiated distribution services and unregulated services. JEN uses a cascade of three allocation approaches to allocate shared costs, as follows:

- Percentage allocation based on actual time writing results.

Shared costs (net of directly attributable costs described above) are allocated to activities based on time writing data. In Dec 2009 time writing was introduced to correctly assign direct costs to activities with employees allocating their time spent directly to a WBS. Due to the improved accuracy of this methodology, it has been extended to the allocation of shared costs, where possible.

- Direct allocations based on FTE surveys conducted.

Where time writing data is not available or not relevant, shared costs (net of directly attributable costs described above) are allocated to activities based on employee surveys. Surveys of time spent on activities are completed by employees and used to allocate costs to services provided by JEN. Employee surveys are gradually being phased out as time writing improves.

- Where time writing and survey data is not available or not relevant, shared costs are allocated based on the proportion of direct costs for each service classification to total direct costs.

Shared costs are allocated to services based on the proportion of direct costs. This method can be easily verified and consistently applied across periods.



7 Accountabilities and responsibilities

The CAM, once in place will be used for all regulatory reporting purposes. It will primarily be used for annual Regulatory Information Notice 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; the CAM will be the primary responsibility of the General Manager, Business Finance Partner who will:

- conduct periodic reviews of the CAM;
- liaise with the CFO, Business Unit Managers, Finance 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.



8 Record maintenance

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

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

Information contained in this database is provided to auditors upon request to enable audits of JEN's RIN responses and other documents to take place as necessary.

JEN will seek re-approval from the AER for any changes to the CAM.



9 Compliance monitoring

9.1 Day to Day Use of the CAM

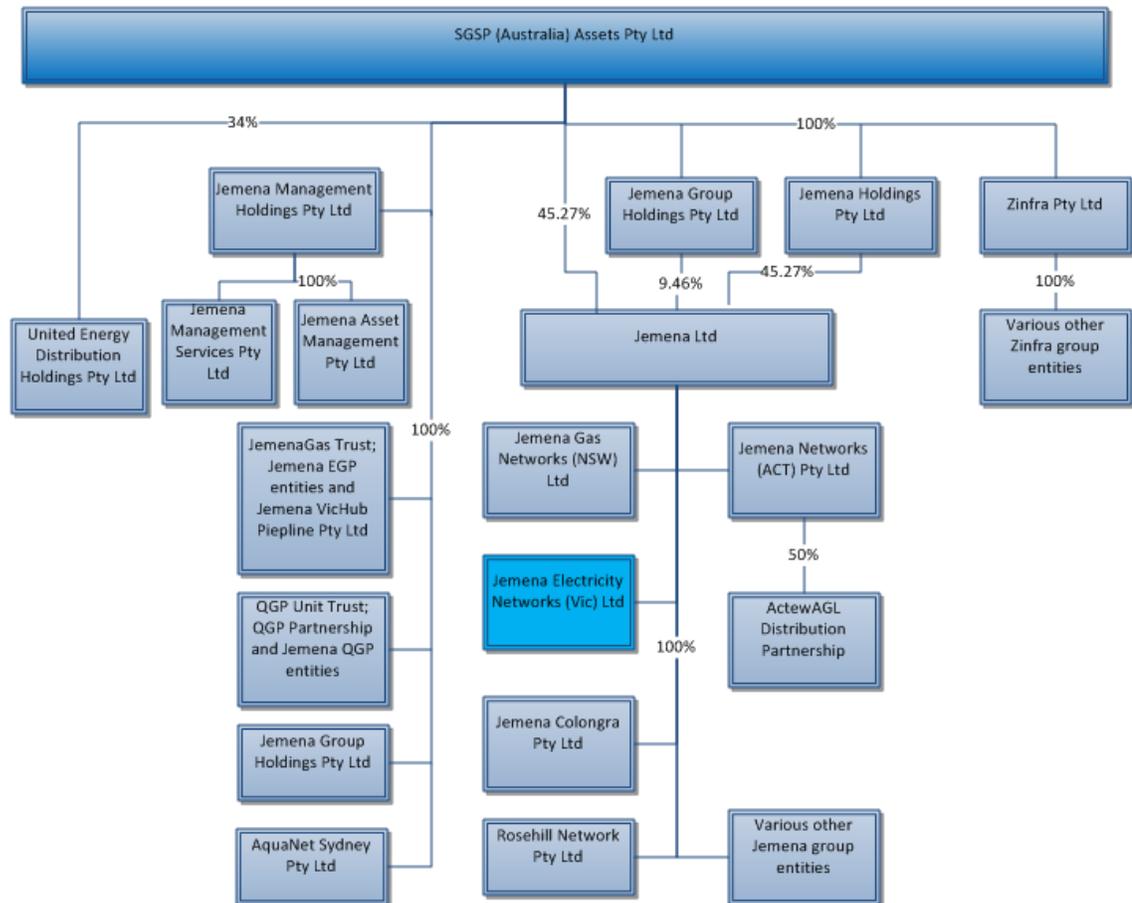
The CAM utilises the activity code data derived from the time writing process and the charging of costs to jobs that are linked to these activity codes. Some direct costs assigned to the service categories in the CAM are based on costs reported in the SAP general ledger by cost centre and general ledger account. The quality of this data, which is also used extensively in management reporting and is an integral part of the SAP financial data used for the preparation of statutory accounts, 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 on 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.

9.2 Use of the CAM in Regulatory Reporting

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 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 1 – SGSPAA Pty Ltd





Glossary

AER	Australian Energy Regulator
BI	Business Intelligence
CAM	Cost Allocation Methodology
Capex	Capital expenditure
Customers	Electricity retailers and/or end customers of electricity.
DNSP	Distribution Network Service Provider
ERP	Enterprise Resource Planning
ESF	Enterprise Support Functions
FTE	Full time employee
Guidelines	Cost Allocation Guidelines
HSE	Health, Safety and Environment
JEM	Jemena Ltd, holding company of JEN
JEN	Jemena Electricity Networks (Vic) Ltd
NER	National Electricity Rules
Opex	Operating expenditure
SGCC	State Grid Corporation of China
SGID	State Grid International Development
SGSPAA	State Grid Singapore Power Australia Assets Pty Ltd
SGSPAA Group	SGSPAA and its subsidiaries and associates
SP	Singapore Power
SPIAA	SPI (Australia) Assets Pty Ltd
WBS	Work Breakdown Structures