

# Cost Allocation Method Version 5 .0



1 December 2018



## Version History and Date of Issue

Section 3.2(a)(2) of the Australian Energy Regulator's Cost Allocation Guidelines requires that this Cost Allocation Method include the Distribution Network Service Provider's commitment to history and date of issue for the document. This is detailed in the table below. Modifications of this document will be in accordance with the National Electricity Rules (NER) and the Cost Allocation Guidelines requirements.

Version	Date Issued	Summary of Changes
1.0	March 2009	Initial CAM approved by AER
2.0	April 2014	Improved allocation bases and updated to reflect changes in corporate and organisational structure.
3.0	June 2014	Updated to incorporate feedback from AER.
4.0	July 2014	Updated to incorporate feedback from AER.
5.0	July 2018	Updated to reflect changes in corporate and organisational structure, accountability for the CAM, and modifications to the document format.

# CONTENTS

1	BACKGROUND.....	3
2	CAM FORMAT AND CONTENTS .....	3
3	NATURE, SCOPE AND PURPOSE OF CAM .....	4
4	DATE OF COMMENCEMENT .....	5
5	ACCOUNTABILITY FOR THE CAM.....	5
6	CORPORATE STRUCTURE .....	6
7	OPERATIONAL STRUCTURE .....	8
8	CATEGORIES OF DISTRIBUTION SERVICES .....	10
9	COST ALLOCATION PRINCIPLES & POLICIES .....	12
10	CAM CONSISTENCY .....	18
11	RECORD KEEPING.....	18
12	MONITORING COMPLIANCE WITH THE CAM AND CAG.....	19
	APPENDICES .....	20
	APPENDIX A: MAPPING ACTIVITIES TO DISTRIBUTION SERVICES.....	20
	APPENDIX B: ALLOCATION OF SHARED (SUPPORT) COSTS .....	25
	APPENDIX C: COMPLIANCE WITH THE CAG, RFG AND NER.....	27

# 1 BACKGROUND

Clause 6.15.4(f) of the National Electricity Rules (NER) provides that a DNSP may amend its Cost Allocation Method (CAM) subject to the Australian Energy Regulators (AER's) approval. In order to maintain relevance of the CAM, the following changes have been made to Ergon Energy Corporation Limited's (Ergon Energy's) CAM.

- Update the organisational and corporate structure to reflect the integration of Ergon Energy under a common parent entity, Energy Queensland (EQL) and operating model;
- Ensure consistency and demonstrate compliance with the AER's Ring-Fencing Guidelines (RFG);
- Minor changes made to update or clarify issues to improve interpretation.

## 2 CAM FORMAT AND CONTENTS

Clause 3.2 of the CAG sets out the format and contents of a DNSP's CAM. This document complies with clause 3.2 of the CAG as follows:

- The [version control page](#) sets out information regarding Ergon Energy's commitment to recording the version number, history and date of issue for the CAM document (clause 3.2(a)(1) and (2));
- [Section 1](#) provides the background to the CAM amendment;
- [Section 2](#) outlines the CAM format and contents summary;
- [Section 3](#) describes the nature, scope and purpose of Ergon Energy's CAM (clause 3.2(a)(3));
- [Section 4](#) provides the operative date for the CAM (clause 3.2(a)(9));
- [Section 5](#) outlines the accountability for implementing the CAM (clause 3.2(a)(3)(A)) and responsibilities for updating, maintaining and applying the CAM and for internally monitoring or reporting on its application (clause 3.2(a)(3)(B)) across Ergon Energy's Distribution Network;
- [Section 6](#) presents Ergon Energy's Corporate Structure, identifying the relationships between the distribution networks and the broader Energy Queensland Group (clause 3.2(a)(4));
- [Section 7](#) presents the operating structure of Ergon Energy's network under the common Energy Queensland Group management team (clause 3.2(a)(4));
- [Section 8](#) describes the categories of distribution services that are provided by the Ergon Energy's network and describes the parties that these services are provided to (clause 3.2(a)(5));

- [Section 9](#) summarises the Cost Allocation Principles and Policies that are applied in accordance with the CAG and RFG and provides an overview of the financial systems that are used to implement and report against the CAM and describes how capital expenditure, shared assets and shared costs are treated (clause 3.2(a)(6));
- [Section 10 and 11](#) outlines the measures that are in place to ensure consistency of application and records over time (clause 3.2(a)(7));
- [Section 12](#) identifies Ergon Energy's ongoing commitment to monitoring and compliance activities for the CAM (clause 3.2(a)(8));
- [Appendix A](#) summarises the mapping of the network operating expenditure and capital expenditure activities to the Service Classifications for Ergon Energy;
- [Appendix B](#) summarises the allocators used for allocating the shared (support) costs between regulated Distribution Services and Unregulated services; and
- [Appendix C](#) provides a compliance checklist against the requirements of the AER CAG, RFG, and NER.

## 3 NATURE, SCOPE AND PURPOSE OF CAM

### 3.1 Nature

This CAM document has been prepared in accordance with the requirements of Chapter 6 Part F of the NER and the CAG. Ergon Energy has submitted this CAM to the AER for approval to take effect from 1 July 2018, superseding the current CAM document for Ergon Energy [version 4.0].

### 3.2 Purpose

This document sets out the principles and policies for attributing direct costs and the allocation of indirect costs between different categories of distribution services, that is, between direct control services (standard control services and alternative control services) and unregulated distribution services.

The method and principles established in this document are also applied to attribute and allocate costs to non-distribution services, ensuring that only those costs associated with Ergon Energy's distribution services are then attributed to or allocated between the categories of distribution services.

### 3.3 Scope

This CAM gives effect to and is consistent with the cost allocation principles and the CAG. Specifically:

- The CAM attributes costs directly to, or allocates costs between, categories of Distribution Services on the substance of the underlying transaction or event, rather than the legal form, as required by section 2.2.2 of the CAG;

- Only costs that are directly attributable to the provision of a particular category of Distribution Services are directly attributed to those services, as required by section 2.2.3 of the CAG;
- The CAM allocates shared costs between categories of Distribution Services using appropriate causal allocators, as required by section 2.2.4 of the CAG;
- The CAM does not allocate the same cost more than once, as required by section 2.2.5 of the CAG;
- The detailed principles, policies and approach used to attribute costs directly to, or allocate costs between, categories of Distribution Services are consistent with the applicable Ring-Fencing Guidelines under clause 6.17 of the Rules, as required by section 2.2.6 of the CAG; and
- It will not reattribute or reallocate costs from a Distribution Service to another service during the course of a regulatory control period, as required by section 2.2.7 of the CAG.
- Ergon Energy will apply this CAM to prepare:
  - Prices for a Negotiated Distribution Service determined in accordance with clause 6.7.1 of the Rules;
  - Annual statements in accordance with any regulatory information instruments; and
  - Actual or estimated capital expenditure for the purposes of adjusting the value of Ergon Energy's regulatory asset base under Schedule 6.2.1(f) of the Rules.

Ergon Energy commits to this CAM and its principles and policies and will apply the CAM consistently over time. Any modifications required to this document to ensure its ongoing relevance to the business will be undertaken in accordance with the NER and CAG.

## 4 DATE OF COMMENCEMENT

This CAM is effective from 1 December 2018 and will remain in force until such time as a new or amended CAM is approved by the AER in accordance with the NER and the CAG. Upon its commencement, this CAM will supersede all earlier versions.

## 5 ACCOUNTABILITY FOR THE CAM

Accountability for implementing the CAM resides with the Chief Financial Officer (CFO) through the finance and regulatory functions within EQL.

The day-to-day responsibility for the CAM is shared between the:

- Group Manager Financial Control, who is responsible for the application of the CAM in the production of regulatory financial reporting, the monitoring and reporting on the

CAM's application and the integration of the CAM into the processes and financial systems used.

- General Manager Regulation and Pricing who is responsible for monitoring compliance of the CAM with the NER and the CAG.

Ergon Energy will ensure that accounting records incorporate the application of the CAM and regulatory financial reporting will be based upon these records.

Ergon Energy will internally review and monitor the application of the CAM for accuracy and completeness. This includes formally monitoring and reporting on the CAM's application through its internal and external audit programs.

## 6 CORPORATE STRUCTURE

Section 3.2(a)(4) of the CAG requires the CAM to include a description of the DNSP's corporate structure.

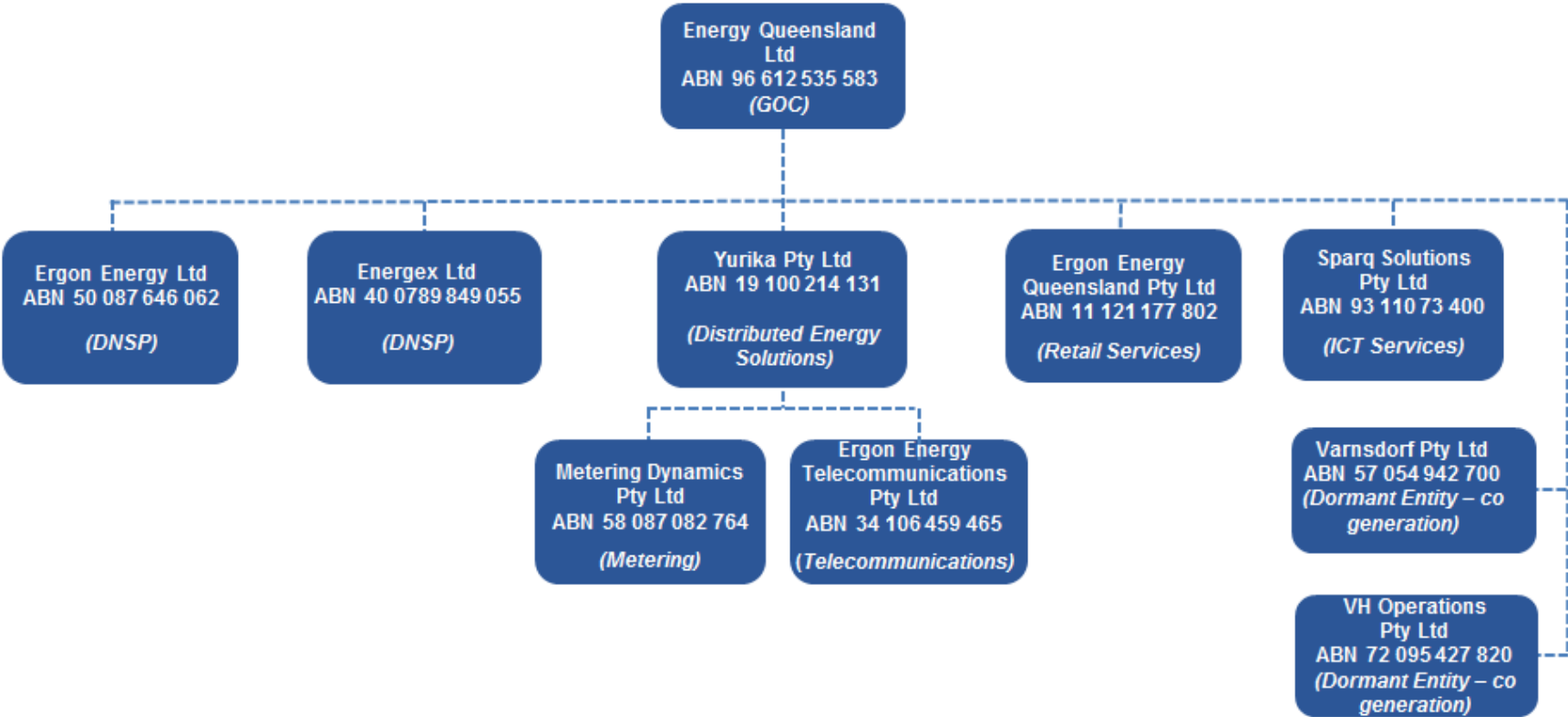
Ergon Energy is a wholly owned subsidiary of EQL. EQL, which commenced operations on 30 June 2016, is a Queensland Government Owned Corporation (GOC) that is the holding company for Ergon Energy.

Ergon Energy is a DNSP that provides distribution services to over 700,000 customers in regional Queensland. Our service area covers around 97 per cent of Queensland and has approximately 150,000 kilometres of power lines and one million power poles. Around 70 per cent of the network's power lines are considered rural, with a very low customer density and largely radial profile.

Ergon Energy's key focus is distributing safe, reliable and affordable electricity in a commercially balanced way that provides value for its customers, manages risk and builds a sustainable future.

The corporate structure for Ergon Energy is shown in Figure 1 below.

Figure 1: Ergon Energy's Corporate Structure in the EQL Group





## 7 OPERATIONAL STRUCTURE

Ergon Energy operates under a common management team and delivers services through functional units shown in Figure 2 below. The integrated operational structure:

- provides a strong focus on continuous improvement and performance;
- aims to reduce costs and maximise operating synergies through streamlined decision making, common network management and IT activities;
- delivers economies of scale in procurement areas;
- seeks growth in new unregulated areas

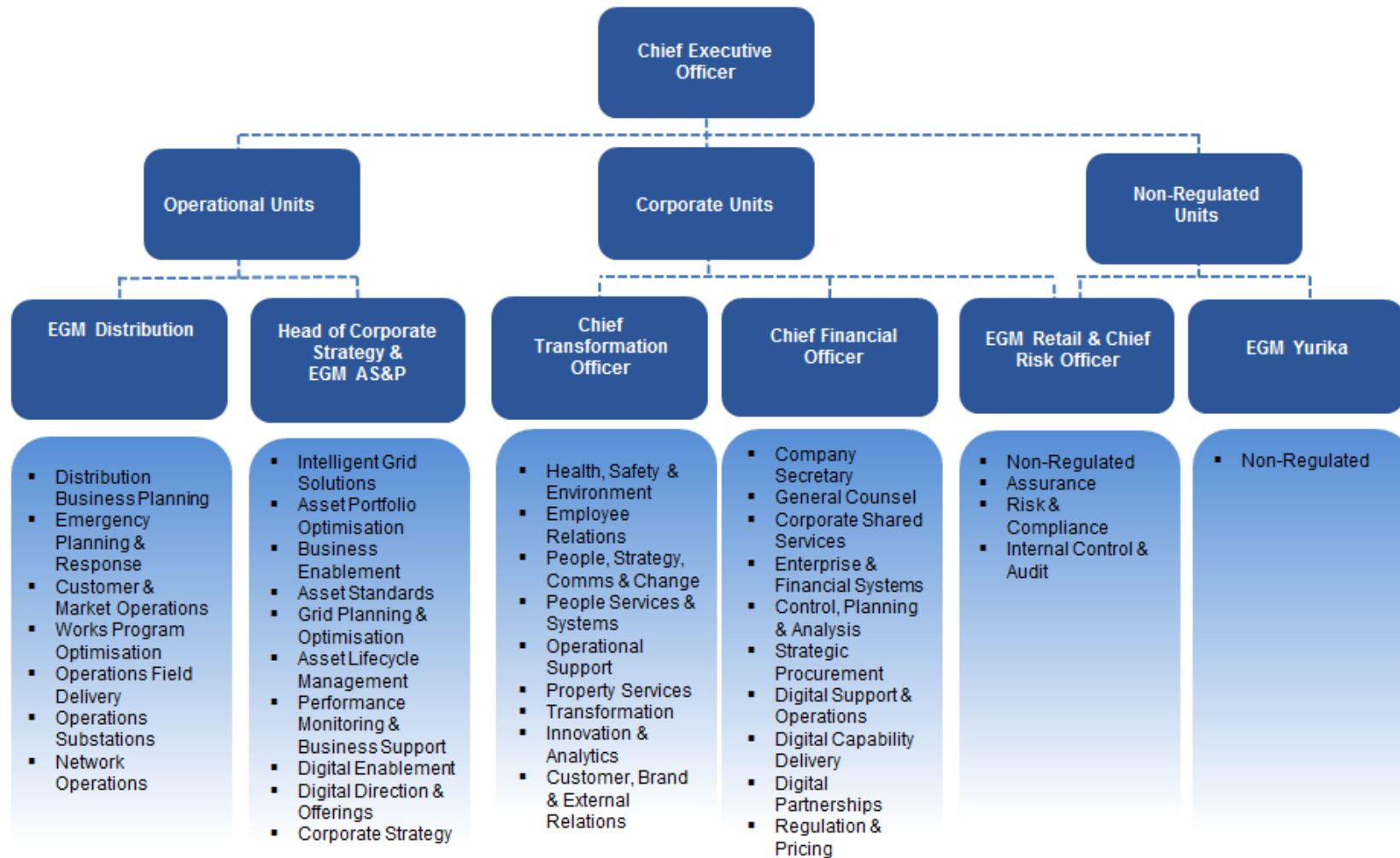
Operational units are split along the lines of asset management and field services, providing the efficient delivery of asset management, construction, maintenance and customer services to the group's two regulated distribution businesses and external customers.

Corporate units provide services to support the operational and non-regulated units and to meet the requirements of key stakeholders. The operational structure is described in more detail below. The business operation units are overseen and managed by the Chief Executive Officer (CEO) and Executive Leadership Team (ELT) comprising Executive General Managers from each respective business unit.

- **Field Services** - is the accountability of the Executive General Manager - Distribution and is focused on delivering customer needs by safely and efficiently designing, constructing, maintaining and operating the electricity network.
- **Asset Management** - is the accountability of the Head of Corporate Strategy & Executive General Manager Asset Safety and Performance and involves network strategic planning, network policies and standards development, work program governance, safety strategies, and network data management, digital enablement, digital direction & offerings, and corporate strategy.
- **Customer, People and Culture** – is the accountability of the Chief Transformation Officer and is focused on the provision of corporate human resource functions and payroll administration, occupational health and safety, environment and property services and operational support including fleet, supply, technical training and apprentices, innovation & analytics, customer, brand and external relations.
- **Finance** – is the accountability of the Chief Financial Officer and involves responsibility for the provision of financial accounting, management accounting, taxation, treasury, legal services, company secretariat and corporate shared services such as accounts payable and receivable, records management, insurance, digital support & operations, digital capability delivery, digital partnerships, and Regulation and Pricing.

**Risk and Audit** – is the accountability of the EGM Retail and Chief Risk Officer and is focused on risk and compliance, internal control and audit functions.

Figure 2: Management Team and Functional Units



## 8 CATEGORIES OF DISTRIBUTION SERVICES

The classification of Ergon Energy's distribution services are outlined in the AER's "Final decision - Energex determination 2016-16 to 2019-20 – Attachment 13 – Classification of Services". In accordance with the NER, the AER may classify distribution services as follows:

- Standard Control Services (SCS),
- Alternative Control Services (ACS),
- Negotiated Distribution Services, and
- Unclassified services.

Clause 3.2(a)(5) of the CAG requires the CAM to include a specification of the categories of distribution services that the DNSP provides to which costs are to be attributed and the types of persons to whom those services are provided.

Set out below are the categories of services provided by the Ergon Energy. The services provided by Ergon Energy in each category are summarised in Table 1.

### 8.1.1 Standard control services (SCS)

Services associated with the access and supply of electricity to customers and includes the provision of network capability, maintenance and operation of the distribution system. These services are provided to all residential and business customers connected to the electricity network, the cost of which is recovered via Distribution Use of System (DUOS) tariffs.

### 8.1.2 Alternative control services (ACS)

Distribution services provided by Ergon Energy to specific customers where the customer is charged specifically for the service requested and includes the provision of metering and public lighting, connection services, and ancillary services. These services are provided to connected customers, third parties, and retailers, the cost of which is recovered by user pay fees or charges that apply to the specific customer requesting the service with the relevant charge being approved by the AER.

### 8.1.3 Unclassified services

Services which are capable of being provided on a contestable basis and includes the provision of Type 1-4 metering services. These services are not subject to economic regulation under the NER.

### 8.1.4 Other unregulated services

Ergon Energy provides a range of non-distribution services that are also not subject to regulation.

### 8.1.5 Negotiated Services

Ergon Energy currently does not provide any services that are classified as negotiated services.

**Table 1- Network distribution services**

<b>Distribution Service Group</b>	<b>Service Description</b>	<b>AER Service Classification</b>
Network Services	Planning the network	SCS
	Designing the network	SCS
	Constructing the network	SCS
	Maintaining the network	SCS
	Operating the network for DNSP purposes	SCS
	Administrative support for the provision of network services	SCS
Pre-connection services	General connection enquiry services	SCS
	Connection application services	ACS
	Pre-connection consultation services	ACS
Connection Services	Small customer connections	SCS
	Large customer connections	ACS
	Real estate development connection	ACS
	Removal of network constraint for embedded generator	ACS
	Temporary connections	ACS
Post connection services	Operate and maintain connection assets	SCS
	Connection management services	ACS
	Accreditation of alternative control service providers and approval of design works and materials	ACS
Metering services	Type 5 and 6 metering, maintenance, reading and data services (legacy meters)	ACS
	Type 7 metering services	SCS
	Auxiliary metering services	ACS
Street lighting services	Provision, construction and maintenance of street lighting	ACS
Ancillary network	Services provided in relation to retailer of last resort	ACS

Distribution Service Group	Service Description	AER Service Classification
services	event	
	Other recoverable works	ACS
Unclassified distribution services	Type 1-4 metering	Unclassified
	Emergency recoverable works	Unclassified
	Watchman lights	Unclassified
	High load escorts	Unclassified

### 8.1.5.1 Types of persons to whom distribution services are provided

Ergon Energy provides distribution services to:

- Network customers: Ergon Energy provides a range of standard control and ACS to premises within its distribution area. ACS are requested through a retailer or in some circumstances can be requested directly by the customer.
- Third party customers: Ergon Energy provides alternative control services to third parties (e.g. local councils, real estate developers).
- Electricity retailers: Retailers purchase wholesale energy that is transported through Powerlink’s transmission system, and Ergon Energy’s distribution systems, to network connected customers. Retailers also request alternative control services (e.g. disconnection, special meter read) on behalf of customers.

## 9 COST ALLOCATION PRINCIPLES & POLICIES

The CAM covers the attribution of costs to, and allocation of costs between the regulated Distribution Services and unregulated services, as well as between the different categories of Distribution Services.

The costs of “doing” Activities (e.g. field work) are directly attributed to Distribution Services and unregulated services through the coding of time and costs to account codes that are mapped to specific services. The cost of “support” Activities are allocated across Distribution Services and unregulated services using causal allocators.

The following sections provide further information on the attribution and allocation of costs.

### 9.1 Overview of Financial System (Mincom Ellipse)

The attribution of costs to, and allocation of costs between, Distribution Services and unregulated services is facilitated by Ergon Energy’s enterprise resource planning system (ERP). Supporting

systems are used for determining inputs into the ERP Ellipse, such as calculating allocation percentages for shared costs.

The ERP is used for recording and reporting all financial information for Ergon Energy. The financial information is recorded on the basis of the businesses' Chart of Accounts, which is based on an Activity Based Costing Methodology.

When costs are incurred they are processed against an account code consisting of four Chart of Account Segments:

- Activity – this Segment defines the nature of the work being undertaken;
- Responsibility Centre – this Segment is used to describe the organisational unit that is accountable for the work being undertaken;
- Product Code – this Segment is used to define the product being provided to external customers; and
- Expense Element – this Segment identifies the nature of the cost item being processed - for example, labour, and materials, fleet.

All costs processed within Mincom Ellipse contain all four Segments and, together with the use of optional sub-ledger data for projects, equipment and works orders, provide a robust basis for the attribution and allocation of costs.

Each Activity is mapped to a specific Distribution Service, unregulated activity or shared (support) cost. The mapping of Activities to Distribution Services and unregulated services is summarised in [Appendix A](#).

## 9.2 Treatment of Directly Attributed Costs

The costs that are directly attributed to specific Distribution Services and unregulated services include:

- Labour;
- Inventory and Materials;
- Fleet; and
- Project / Works Management.

These costs are directly attributable as they are associated with specific Activities, which in turn are associated with specific Distribution Services and unregulated services. The following table summarises the nature of these directly attributed costs and how they are attributed to specific services.

**Table 2 – Directly Attributed Costs**

Nature of Cost	Description	Attributed to	Basis of Costing
Labour and related costs	Labour cost and other payroll related costs (such as payroll tax, superannuation, and workers compensation, annual and long service).	Standard Control Services Alternative Control Services Unregulated Services	Directly attributed based on the labour costing process which provides for entry of labour hours based on timesheet data.  The related costs are charged as a percentage of the labour cost attributed to an Activity.
Inventory & Materials	Inventory and materials costs, including an associated charge (oncost) representing the administration costs of the Logistics Group, which manages inventory and materials	Standard Control Services Alternative Control Services Unregulated Services	Attributed via Chart of Accounts based on Activity. Inventory items are issued via requisition to the job based on average cost of the item.  The administration cost is charged as a percentage of the cost of inventory attributed to an Activity.
Fleet charges	Motor vehicle leasing and internal operating costs, including management and administration costs, fleet internal, inspection costs, registration and depreciation.	Standard Control Services Alternative Control Services Unregulated Services	Directly attributed via the equipment hire process which charges fleet costs based on a unit charge associated with the particular class of vehicle used.
Other	Contracted services and other costs that can be directly attributed to activities / projects.	Standard Control Services Alternative Control Services Unregulated Services	Attributed via Chart of Accounts based on Account Code.

An example of directly attributed costs would be field staff booking a number of hours of their time, all materials used to complete the job, a number of hours of borer lifter time (fleet charges) and

also possibly raising a purchase order to hire external equipment required to complete the job against a work order relating to, for example, the Corrective Maintenance Activity.

Because there is a direct mapping of Activities to specific Distribution Services and unregulated services, when costs are directly attributed to an Activity they are also, by extension, directly attributed to the specific Distribution Service or unregulated service.

[Appendix A](#) summarises the mapping of the Chart of Account Activity codes against the Distribution Services and unregulated services.

### 9.3 Treatment of Capital Expenditure and Shared Assets

The direct attribution of costs is the same for both operating and capital expenditure, with each activity being mapped to a specific Distribution Service or unregulated service.

All system assets (except fibre) are attributed directly to SCS – Network Services. The Shared Asset Guideline is applied where system assets subsequently meet the definition of shared assets in that guideline.

All street lighting assets are attributed directly to ACS – Street Lighting.

Non-system assets are attributed directly to a Distribution Service or unregulated service via the Activity that the cost is coded to. However, some non-system assets are used to provide both SCS and other services. Therefore, for the purposes of preparing capital expenditure forecasts and regulatory reporting, a separate record is maintained to track adjustments required for the Regulated Asset Base for SCS.

Where fibre (telco), property and fleet assets are shared between SCS and other services (other than ACS – Street Lighting), the costs of the assets are allocated between the services on the basis of forecast usage for each asset class.

Forecasts for the allocation of shared property and fleet assets are based on past usage for the most recent audited financial year. That is, forecasts for a given financial year (Year t) will be based on actual usage in Year t-2, adjusted where appropriate for known structural or operational changes in the Ergon Energy Group.

Ergon Energy will maintain copies of working papers to support the allocation of these assets, and these will be provided to the AER on request.

### 9.4 Treatment of Shared (Support) Costs

Shared (support) costs encompass costs that are not wholly and exclusively associated with a single business or those costs that are shared between two or more distribution services. The sources of shared (support) costs include:

- Costs from the business units that provide support across the services provided by EQL;
- Labour and administration costs that have not been directly attributed to work plan activities, such as senior management, technical and operations support, including maintenance and construction standards, mapping, technical data records and field investigations and auditing; and



- Costs from services provided by Ergon Energy's unregulated businesses.

The allocation of shared (support) costs to Distribution Services is a four-step process, as follows:

1. Allocation of shared (support) costs between the regulated Distribution Services provided by Ergon Energy and each of the unregulated services provided by the EQL Group.
2. For the costs allocated to the regulated Distribution Services provided by Ergon Energy in Step 1, further allocate the costs between regulated operating expenditure and regulated capital expenditure.
3. Calculate the Shared Cost Percentage Rate for each of regulated operating expenditure and regulated capital expenditure.
4. Apply the Shared Cost Percentage Rates to the direct operating expenditure and direct capital expenditure in the ERP.

These steps are described in further detail below.

#### **9.4.1.1 Step 1 – Allocation of Shared (Support) Costs between Distribution Services and unregulated services**

Shared (support) costs are allocated between Distribution Services and unregulated services on the basis of causal allocators, which vary depending on the nature of the shared (support) cost, as follows:

- Where costs are identified as relating solely to a legal entity within the EQL Group, they are charged to that entity;
- For transaction related costs, the number of transactions undertaken (e.g. number of invoices processed) is the driver selected for the allocation of the costs;
- Where the cost is driven by the number of employees, headcount is the driver selected for the allocation of costs; and
- In other cases, an estimate of time spent in providing the services to the users is used as the driver to calculate the allocation of work and costs (i.e. work allocation).

[Appendix B](#) summarises the allocators used to allocate costs between the regulated Distribution Services provided by Ergon Energy and the unregulated services provided by the EQL Group. The choice of allocator used reflects the underlying cost drivers, and thus the economic substance of the transactions, rather than the legal form.

The output from Step 1 is a pool of shared (support) costs for the Distribution Services and a pool of shared (support) costs for each of the unregulated services.

### 9.4.1.2 Step 2 – Allocation of Shared (Support) Costs between Regulated Operating Expenditure and Capital Expenditure Activities

For the pool of shared (support) costs that are allocated to the regulated Distribution Services provided by Ergon Energy, the next step is to allocate these shared (support) costs between regulated operating expenditure Activities and regulated capital expenditure Activities.

Where the shared (support) cost is directly attributable to either regulated operating expenditure or regulated capital expenditure, the cost is charged directly to that activity.

For shared (support) costs that are shared between operating and capital activities, the costs are allocated on the basis of the proportional values of the operating and capital work plans (i.e. direct costs).

The outcome is a pool of shared (support) costs related to regulated operating expenditure Activities and a pool of shared costs related to regulated capital expenditure Activities.

### 9.4.1.3 Step 3 – Calculate Shared Cost Percentage Rates for Regulated Operating and Capital Expenditure

The shared (support) cost pools determined in Step 2 are then converted to Shared Cost Percentage Rates for regulated operating expenditure Activities and regulated capital expenditure Activities, as follows:

$$\text{Opex Shared Cost Percentage Rate (\%)} = \frac{\text{Shared (Support) Costs for Operating Activities (\$)}}{\text{Work Plan for Operating Activities (\$)}}$$

$$\text{Capex Shared Cost Percentage Rate (\%)} = \frac{\text{Shared (Support) Costs for Capital Activities (\$)}}{\text{Work Plan for Capital Activities (\$)}}$$

### 9.4.1.4 Step 4 – Apply Shared Cost Percentage Rates to Direct Expenditure

The Shared Cost Percentage Rates determined in Step 3 are loaded into the ERP and applied whenever a cost is coded against an Activity code for Distribution Services. When an actual transaction is posted to an account code, the Shared Cost Percentage Rate to be applied is determined by reference to the Activity segment of the account code.

The Activity segment identifies whether the cost is an operating expense or capital expense, and thus which Shared Cost Percentage Rate should be applied.

As the Activity is mapped to a unique Distribution Service (see [Appendix A](#)), the overhead costs are thereby allocated between the different Distribution Services.

## 9.5 Application and Review of Shared Cost Percentage Rates

At the commencement of each financial year, budget data is used to set the initial Shared Cost Percentage Rates.

The Shared Cost Percentage Rates are reviewed at least quarterly throughout the financial year. They are adjusted, as required, by increasing or decreasing the Shared Cost Percentage Rates if

the allocation of the shared (support) cost pools is being under or over allocated, to ensure that the actual allocations made remain in proportion to the actual costs incurred. The percentage rate required to fully allocate the shared (support) cost pools is influenced by an increase or decrease in the actual direct regulated operating and capital costs and/or an increase or decrease in the actual shared (support) cost pool to be allocated.

The revision of the percentage rate will ensure that the actual shared (support) costs for each pool are appropriately allocated to the actual directly attributed costs of Activities supported by the relevant cost pool.

The Shared Cost Percentage Rates for each regulated operating expenditure and regulated capital expenditure will therefore vary between years depending on:

- The amount of costs directly attributed to regulated operating expenditure and regulated capital expenditure; and
- The amount of shared (support) cost pools allocated to regulated Distribution Services.

At year end it is inevitable that the percentage rates struck throughout the year will not result in a 100% allocation of the shared (support) cost pool. Ergon Energy's experience has been that the "balance" remaining in the shared (support) cost pool is not materially significant. Ergon Energy adopts the materiality definition used in the Australian Accounting Standards.

When the unallocated balance is less than 10% of the Ergon Energy overhead pool, it shall remain unallocated. In the unlikely event that a materially significant variance arises (i.e.: greater than 10%), the balance will be allocated across the relevant services on the basis of proportional direct costs percentages.

## 10 CAM CONSISTENCY

Policies and principles relating to allocations will be consistently applied across accounting periods to ensure that regulatory financial reports are prepared on a consistent basis over time.

Ergon Energy will apply the CAM consistently each year. As the nature of costs may change from time to time, Ergon Energy will periodically review the CAM and make appropriate changes to ensure that its application results in:

- Consistency with prior accounting and regulatory periods; and
- The basis of cost attribution or cost allocation being considered on the substance of the transaction over its legal form.

## 11 RECORD KEEPING

The ERP provides the capability to record and report all financial information based on the CAM principles and policies for both statutory and regulatory purposes.

Outputs from this system include the standard suite of financial reports such as, Trial Balance, General Ledger, Profit & Loss Statement, Balance Sheet and numerous other views of the posting of financial transactions (directly allocated and shared costs) which can be produced depending upon the nature of the enquiry. Transactions, once posted, cannot be deleted so that prior year data is therefore also maintained.

Supporting systems are used for input into Mincom Ellipse for, amongst other things, calculating the quantities and/or percentage of allocators for the allocation of shared (support) costs to cost pools and to the relevant Distribution Services. These include a Corporate Support Costs Allocation Model and an Overhead Analysis Model which provide an auditable record of the source of the data for these calculations.

All records will be appropriately retained in accordance with regulatory and legislative requirements.

All information submitted to the AER through regulatory information notices is subject to external audit prior to submission.

## 12 MONITORING COMPLIANCE WITH THE CAM AND CAG

The Finance and Corporate Services Business Unit is responsible for monitoring compliance with the CAM for Ergon Energy. Operationally, the General Manager Financial Control will be responsible on a day to day basis for compliance.

Ergon Energy's annual statutory financial statements and the ERP are reviewed by our external auditors.

Ergon Energy will undertake an independent audit of their regulatory financial reports to ensure they are compliant with regulatory reporting requirements, including the CAM.

Ergon Energy can also independently monitor and report on the CAM's application through internal and external audit programs that are in addition to those specified above. These include scheduled or ad hoc programs of specific areas identified by either management or shareholders

# APPENDICES

## APPENDIX A: MAPPING ACTIVITIES TO DISTRIBUTION SERVICES

The following table summarises the Chart of Account operating expenditure activity mapping to the Distribution Services and other services provided by Ergon Energy. New activities will be mapped to service categories in accordance with the AER-determined service classifications.

**Table A.1 Mapping of Activities to Distribution Services – Operating Expenditure**

Activity Group	Activities	Service Category
Network Operations	This includes the cost of operating the regulated distribution network, such as: <ul style="list-style-type: none"> <li>Regulated Network Operations</li> <li>Embedded Generation</li> <li>Secondary Systems</li> </ul>	SCS – Network Services
Preventive Maintenance	Includes preventive maintenance activities on the regulated network.	SCS – Network Services
Corrective Maintenance	Includes corrective maintenance activities on the regulated network.	SCS – Network Services
Forced Maintenance	Unplanned maintenance undertaken on the regulated distribution network as a result of an external / exogenous event.	SCS – Network Services
Demand Management Incentive (DMIA)	Activities undertaken under this incentive scheme.	SCS – Network Services
Non-Network Alternatives (NNA)	Activities undertaken to mitigate network constraints by working with customers or providing alternative products that drive customer response to mitigate demand.	SCS – Network Services

Activity Group	Activities	Service Category
Other Regulated Network Opex	<p>This includes a range of other activities related to the regulated distribution network, such as:</p> <ul style="list-style-type: none"> <li>• Network Metering</li> <li>• Outage Communication</li> <li>• Public / Community Safety</li> <li>• Training &amp; Development</li> <li>• Redundancy Payments</li> <li>• Distribution Call Centre</li> <li>• Non-Proceeding CICW</li> <li>• Non-Proceeding NICW</li> </ul>	SCS – Network Services
Small Customer Connections	<p>All activities associated with connection of small customers to the regulated distribution network, such as:</p> <ul style="list-style-type: none"> <li>• Customer Installation Services</li> <li>• Guaranteed Services Levels.</li> </ul>	SCS – Connection Services
Street Lighting	<p>Operating and maintenance activities relating to street lighting services, such as:</p> <ul style="list-style-type: none"> <li>• Preventive Maintenance</li> <li>• Corrective Maintenance</li> <li>• Forced Maintenance</li> <li>• New Technologies</li> </ul>	ACS – Street Lighting
Type 5 & 6 Metering Services	<p>Operating and maintenance activities relating to type 5 &amp; 6 metering services Relating to legacy type 5 and 6 metering services</p>	ACS – Metering Services

Activity Group	Activities	Service Category
Alternative Control Services	<p>Activities relating to other Alternative Control Services, such as:</p> <ul style="list-style-type: none"> <li>• Revenue Protection Services / Meter Tamper</li> <li>• Removal of Network Constraint for Embedded Generation</li> <li>• LCC Commissioning &amp; Energisation</li> <li>• Accreditation of Alternative Service Providers – Small Customers</li> <li>• Accreditation of Alternative Service providers – Large Customers</li> <li>• Retailer of Last Resort Services</li> <li>• Other.</li> </ul>	ACS – Ancillary Services
Non-Regulated Opex	<p>Operating and maintenance activities relating to unregulated services, such as:</p> <ul style="list-style-type: none"> <li>• Grid Generation</li> <li>• Isolated generation &amp; distribution</li> <li>• External Services, including Emergency Recoverable Works</li> <li>• Other Non-regulated Operations &amp; Maintenance</li> </ul>	Unregulated Services

The following table summarises the Chart of Account capital expenditure activity mapping to the Distribution Services and other services provided by Ergon Energy. New activities will be mapped to service categories in accordance with the AER-determined service classifications.

**Table A.2 Mapping of Activities to Distribution Services – Capital Expenditure**

Chart of Account Activity Group	Activities	Service Category
Regulated System Capex – Network	<p>All capital projects related to maintaining and augmenting the regulated network, such as:</p> <ul style="list-style-type: none"> <li>• Network Refurbishment</li> <li>• Load Energy Management</li> <li>• Aging Asset Replacement</li> <li>• Reliability improvement</li> <li>• Augmentation</li> <li>• Demand management incentive Arrange (DMIA)</li> <li>• Non Network Alternative (NNA)</li> <li>• Other system capex</li> </ul>	SCS – Network Services
Regulated Non System Capex	<p>Capital projects relating to non-system assets, such as:</p> <ul style="list-style-type: none"> <li>• Land &amp; Buildings</li> <li>• Vehicles &amp; Mobile Plant</li> <li>• Computer Facilities</li> <li>• SPARQ Computer Facilities – Constructed Cat 1 – Cat 4</li> <li>• Change Program</li> <li>• Other Fixed Assets</li> </ul>	SCS – Network Services
Regulated System Capex – Connections	<p>Capital projects relating to small customer connections, such as:</p> <ul style="list-style-type: none"> <li>• Domestic &amp; Rural Customer Requested Works</li> <li>• Commercial &amp; Industrial Customer Requested Works</li> <li>• Gifted Customer Requested Works</li> <li>• Other Customer Requested Works</li> </ul>	SCS – Connection Services



Chart of Account Activity Group	Activities	Service Category
Type 5 & 6 Metering	Capital projects relating to Type 5 & 6 metering installations.	ACS – Metering Services
Large Customer Connections	Capital projects relating to large customer connection assets, such as: <ul style="list-style-type: none"> <li>• Connections</li> <li>• Large Customer Connections Gifted</li> </ul>	ACS – Large Customer Connections
Street Lighting	Capital projects relating to street lighting assets, such as: <ul style="list-style-type: none"> <li>• Street Lighting Constructed</li> <li>• Street Lighting Refurbishment</li> <li>• Street Lighting Gifted</li> </ul>	ACS – Street Lighting
Ancillary Network Services	Capital projects relating to ancillary network services	ACS – Ancillary Network Services
Generation	Capital projects relating to generation assets.	Unregulated Services
Non-Regulated Capex	Capital projects relating to assets used for non- regulated services	Unregulated Services

## APPENDIX B: ALLOCATION OF SHARED (SUPPORT) COSTS

The following table summarises the allocators used for allocating the shared (support) costs between regulated Distribution Services and unregulated services.

**Table B.1 Support Cost Allocators – by Function**

Function	Nature of Cost Item	Allocators
Chief Executive	Costs of the Chief Executive	Based on work allocation.
Strategy & Regulation	This includes the costs of the Board of Directors, Company Secretary, Regulatory affairs, Corporate Strategy, and Customer & Stakeholder Engagement.	Mostly based on work allocation with other allocators, including audit plan hours allocated directly to legal entity.
Finance	This includes the costs of the Commercial and Financial Management, Billings & Collections, Risk & Assurance, Legal and Procurement	Allocation bases used include: <ul style="list-style-type: none"> <li>• Work allocation, number of invoices, headcount, commercial agreement and allocated directly to legal entity.</li> </ul>
Digital Office	Various cost items relating to the ICT Portfolio	Based on work allocation.
Asset Safety & Performance	Support activities including Asset Governance, Standards & Technology, Network Development, Maintenance and Performance.	Based on work allocation.
Distribution	Support costs relating to and including Service Delivery, Network Operations and Works Enablement.	Based on work allocation.
Yurika	This includes the costs of the Yurika business, reflecting a portfolio of unregulated services (including metering, telecommunications and utility services)	Based on work allocation.

Function	Nature of Cost Item	Allocators
<p>Other Corporate</p> <p><i>(e.g. RC 0002, 0003, 0004)</i></p>	<p>Includes other corporate costs such as change program, and centralised costings (e.g. restructuring costs, performance payments, etc)</p>	<p>Various allocators based on the nature of the costs and the underlying cost drivers. Allocation approaches include: direct to legal entity and 100% regulated.</p>

## APPENDIX C: COMPLIANCE WITH THE CAG, RFG AND NER

The following tables summarised the regulatory obligations and the demonstrated CAM compliance with the CAG, RFG and NER.

**Table C.1 General obligations**

Rules	CAG	Requirements	Addressed
6.15.4(f)(1)(ii)	1.5, 3.1	An amended CAM must not take effect unless and until the DNSP notifies the AER of the agreement	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	<a href="#">Version history and date of issue</a>

**Table C.2 Contents of Cost Allocation Method**

CAG	RFG	Requirements	Addressed
3.2(a)(1)		Version number	<a href="#">Version history and date of issue</a>
3.2(a)(2)		DNSP's commitment to history and date of issue	<a href="#">Version history and date of issue</a>
3.2(a)(3)		Statement of nature, scope and purpose of document and way it is to be used	<a href="#">Section 3</a>
3.2(a)(3)A		Accountabilities for implementation	<a href="#">Section 5</a>
3.2(a)(3)B		Responsibilities for updating, maintaining and applying document and for internally monitoring and reporting its application	<a href="#">Section 5</a>
3.2(a)(4)		Description of corporate and operational structure	<a href="#">Section 6</a> , <a href="#">Section 7</a>

CAG	RFG	Requirements	Addressed
3.2(a)(5)		Specification of service categories and types of persons to whom services provided	<a href="#">Section 8</a>
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	<a href="#">Section 9</a>
3.2(a)(7)	3.2.2(c)	Description of how will maintain records of attribution and allocation	<a href="#">Section 11</a>
3.2(a)(8)	3.2.2(c)	Description of how will monitor compliance with CAM and CAG	<a href="#">Section 12</a>
3.2(a)(9)		Commencement date	<a href="#">Section 4</a>

**Table C.3 Cost allocation principles and policies**

Rules	CAG	RFG	Requirements	Addressed
6.15.2(1)	2.2.1(a)	3.2.2(a) and 3.2.2(b)	Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable:  AER to replicate reported outcomes  DNSP to demonstrate that it is meeting requirements	<a href="#">Section 9</a> and <a href="#">Appendix A</a>
	2.2.1(b)(1)		Include specified information on directly attributable costs to enable AER to replicate reported outcomes	<a href="#">Section 9.2</a>
	2.2.1(b)(2)		Include specified information on shared costs to enable AER to replicate reported outcomes	<a href="#">Section 9.4</a>
6.15.2(2)	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	<a href="#">Section 9</a>
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	<a href="#">Section 9.2</a>
6.15.2(3)(ii)	2.2.4		Allocate shared costs between categories of distribution services using an appropriate	<a href="#">Section 9.4</a>

Rules	CAG	RFG	Requirements	Addressed
			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> in which case may use non-causal allocator in specified circumstances	
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	<a href="#">Section 9.4</a>
6.15.2(5)	2.2.5		Do not allocate the same cost more than once	<a href="#">Section 9</a>
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	<a href="#">Section 9</a>
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	<a href="#">Section 9</a>