

28 March 2008



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*George Maltabarow*  
*Managing Director*

Dear Mr Pattas

### **EnergyAustralia's Transmission Cost Allocation Method**

I am pleased to provide you with EnergyAustralia's proposed Cost Allocation Method (CAM) in accordance with Clause 6A.19.4(a)(1) of the National Electricity Rules (NER).

The attached Transmission CAM has been developed to be consistent with:

- the current ACCC Transmission Revenue Cap decision;
- the Distribution CAM that has been submitted for AER approval;
- the AER's Electricity Transmission Network Services Providers' Cost Allocation Guidelines (Transmission Cost Allocation Guidelines); and
- regulatory accounts that have been submitted to the ACCC and AER over the current regulatory period.

The attached Transmission CAM has been developed from the Distribution CAM that has been submitted to the AER for approval, with specific changes to ensure that the Transmission CAM is fully compliant with the AER's Transmission Cost Allocation Guidelines.

The attached Transmission CAM will apply for the financial year 1 July 2008 to 30 June 2009, after which time it will be superseded by the Distribution CAM in accordance with the Transitional Rules.

In accordance with 3.2(10) of the AER's Transmission Cost Allocation Guidelines (and the subsequent waiver of the guideline requirement that two directors provide a statement), I can provide the following statement:

- In my opinion, the information contained in the attached Transmission CAM is accurate in all material particulars; and
- I confirm that EnergyAustralia intends to comply with the Transmission CAM as approved by the AER.

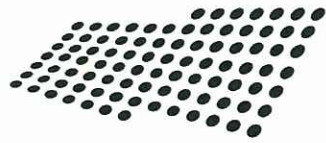


If you have any questions concerning EnergyAustralia's response, please feel welcome to contact me on 9269 2111 or Mr Harry Colebourn on 9269 4171.

Yours sincerely

A handwritten signature in blue ink that reads "George Maltabarow". The signature is stylized and cursive, with a large, sweeping flourish at the end.

**GEORGE MALTABAROW**  
*Managing Director*

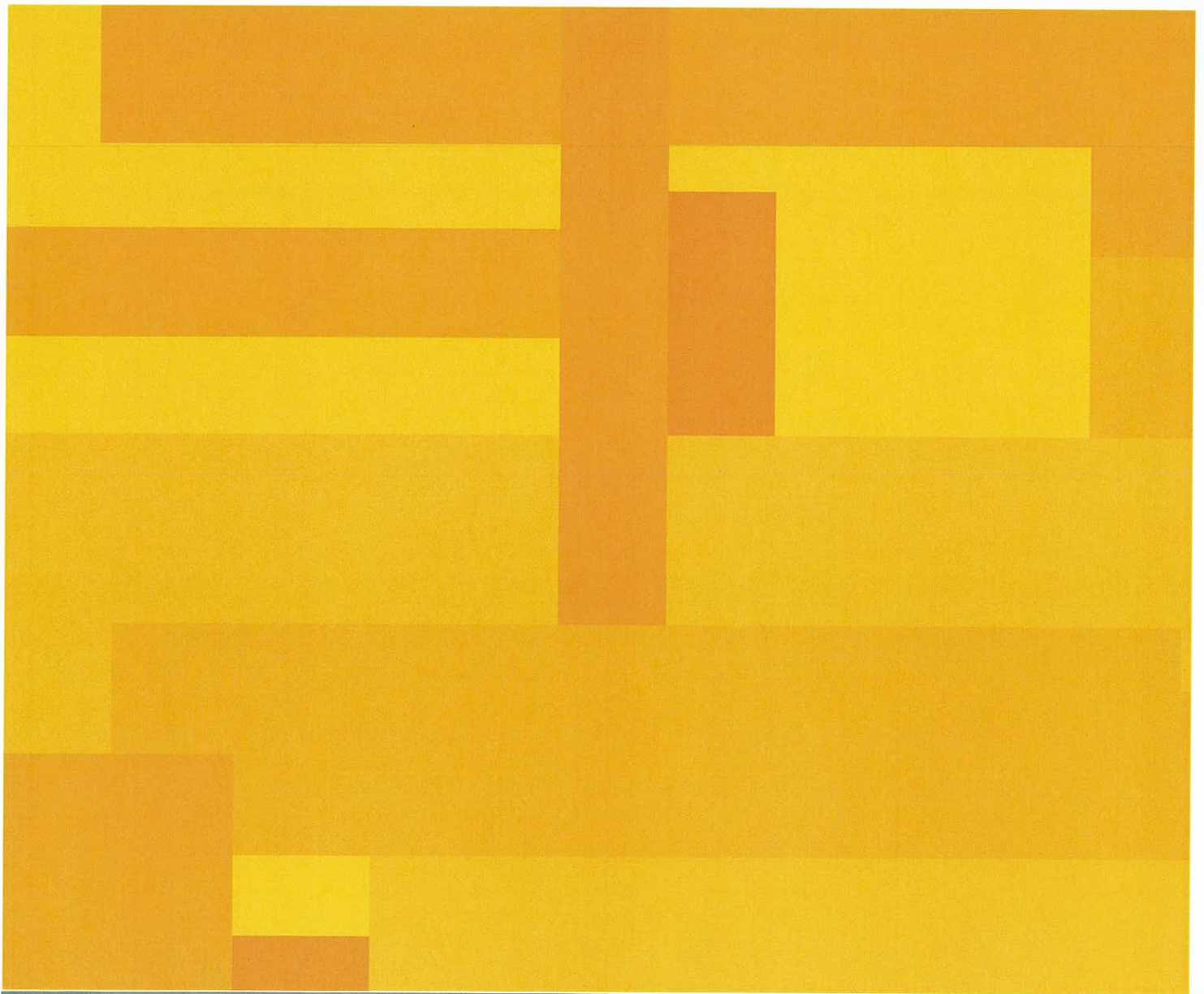


**EnergyAustralia**<sup>®</sup>

## EnergyAustralia's proposed cost allocation method for transmission services

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28 March 2008



**Amendment Record**

Version	Date
01	28 March 2008

# 1. Introduction

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## 1.1 National electricity rules requirements

Clause 6A.19.4(a)(1) of the National Electricity Rules (NER) requires each Transmission Network Service Provider (TNSP) to submit to the AER for its approval a document setting out its proposed cost allocation methodology (CAM) by no later than 28 March 2008.

Clause 6A.19.4 (b) requires that the proposed CAM must give effect to and be consistent with the cost allocation guidelines published by the AER. The AER had published in September 2007 a final cost allocation guidelines that give effect to the cost allocation principles as detailed in clause 6A.19.2 of the NER.

It should be noted that clause 6.15.6(a) of the special provisions applying to New South Wales and the Australian Capital Territory referred to in Clause 11.15 of the NER (the Transitional Rules) requires a Distribution Network Service Providers ("DNSP") to submit to the AER a document setting out its proposed CAM for the regulatory control period 2009-2014.

Clause 6.15.6(b) of the Transitional Rules requires that the CAM proposed by a DNSP must...be prepared using, as far as practicable the same cost allocation method as it last used when preparing its regulatory accounts for submission to the IPART.

## 1.2 Nature, scope and purpose

As EnergyAustralia (EA) is an integrated business providing both distribution and transmission services as well as non network services, it is not possible to outline and document the CAM applicable to EA as a TNSP without first outlining the CAM employed in the derivation of costs relating to network services (that is both distribution and transmission services) provided by EA.

Accordingly, this document sets out EA's CAM as applied by EA in the derivation of its 2006-07 regulatory accounts for the transmission and distribution businesses. It details the principles and policies applied by EA in attributing costs to transmission services as well as the accountabilities within EA for monitoring and implementing the CAM.

This document, together with the Managing Director's responsibility statement, is submitted to the AER for approval as required under clause 6A.19.4(c) of the NER. Once the proposed CAM has been approved by the AER, it will be applied by EnergyAustralia up until 30 June 2009. After this date, the CAM approved by the AER under the Transitional Rules will be applicable for the regulatory period beginning 1 July 2009. The application of both CAMs will be a continuation of the EA's current practice because the CAMs are effectively a documentation of the implementation of The Accounting Code of Separation issued by IPART in 1996 which has been applied by EA from since that time.

EA provides the following services for which the cost allocation principles are applied to attribute the costs of providing these services.

- **standard control services:** services provided by EnergyAustralia which are classified as standard control services under the Transitional Rules<sup>1</sup>.

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<sup>1</sup> Clause 6.2.3B of the Transitional Rules deemed distribution services that were determined by the IPART for the 2004-2009 Determination to be prescribed distribution services to be standard control services. The IPART's Final Determination No 2, 2004 provided that prescribed distribution services include (a) Distribution Use of System Services (b) Private Power Line Inspections and Customer Installation Inspection (c) Monopoly Services (d) Miscellaneous Services and (e) Emergency Recoverable Works.

- **alternative control service:** a service provided by EnergyAustralia which is classified as an alternative control services under the Transitional Rules<sup>2</sup>.
- **unregulated distribution services:** distribution services classified as an unregulated distribution service under the Transitional Rules<sup>3</sup>.
- **standard control service – distribution (SCS – Distribution):** services provided by EnergyAustralia which are classified as a standard control service under clause 6.2.3B (a) of the Transitional Rules.
- **standard control service – transmission (SCS –Transmission):** a service provided by EA referred to in the Transitional Rules as EA prescribed (transmission) standard control service<sup>4</sup> and classified as a standard control service under clause 6.1.6(c)(1) of the Transitional Rules.
- **negotiated distribution services:** services provided by EnergyAustralia which are classified as negotiated distribution services under the Transitional Rules.
- **non network service (NNS):** any services provided by EnergyAustralia other than *standard control services, alternative control services, unregulated distribution services or negotiated distribution services*<sup>5</sup>.

EA, in its capacity as a TNSP, provides transmission services to the three DNSPs in NSW as well as other customers directly connected to EA's transmission system network.

## 2. Background

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EnergyAustralia is a State Owned Corporation incorporated on 1 March 1996, EnergyAustralia operating Australia's largest electricity network. This electricity network comprises mainly distribution assets, however, a small portion of this network is high voltage transmission assets that operate in parallel and provide support to the higher voltage transmission network.

Hence, EnergyAustralia is currently regulated separately as a DNSP by IPART and as a TNSP by the ACCC. During the next regulatory control period (2009-2014) EnergyAustralia's electricity distribution and transmission networks will be economically regulated by the Australian Energy Regulator (AER) on the basis of the transitional Rules as a distribution network. Transmission Pricing arrangements will continue to apply to EnergyAustralia's transmission services.

EnergyAustralia is required to prepare annual regulatory accounts under the IPART's 'Regulatory Information Requirements for Electricity Distributors in NSW – May 1997' for the distribution network business and under the ACCC's 'Statement of principles for the regulation

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<sup>2</sup> The only service currently so classified is the construction and maintenance of public lighting. However certain unregulated services may be classified as alternate control services under 6.2.3B(2)(ii) if the AER makes a determination under clause 6.2.3B(e)

<sup>3</sup> Clause 6.2.3B(b)(2) of the Transitional Rules deemed the following services that were determined by the IPART for the 2004-2009 Determination to be excluded distribution services to be unregulated distribution services, unless the AER makes a determination under clause 6.2.3B(e). These services are (a) Customer Funded Connections (b) Customer Specific Services and (c) Type 1 to 4 Metering Services.

<sup>4</sup> Clause 6.1.6(c)(2)

<sup>5</sup> Examples of these services include the retailing of electricity and gas, pole and duct rentals, construction services provided by EnergyAustralia as an Accredited Service Provider (ASP) to third parties, provision of energy for public lighting and other services provided by EnergyAustralia outside of its distribution area.

of transmission revenues – Information requirement guidelines – 5 June 2002' for the transmission network business. These annual regulatory accounts must be accompanied by a directors' responsibility statement and an independent review report by an external auditor.

The annual regulatory accounts disaggregate EnergyAustralia's statutory financial statements between the different business segments, representing the different *services* provided by EnergyAustralia. In the disaggregation of EnergyAustralia's statutory financial statements into the different segments, EnergyAustralia is required to apply the cost allocation principles laid down by IPART in its Accounting Separation Code and by the ACCC in its Information Requirement Guidelines.

### **3. CAM – principles, policies and application**

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This section 3 outlines the cost allocation principles set out by the various regulators and details of the application of those principles by EA in the derivation of costs attributable to the various services.

#### **3.1 Cost allocation principles**

The Accounting Separation Code (the Code), issued by IPART in December 1996, operates as the Cost Allocation Guidelines applicable to the regulatory control period 2009-2014. The Cost Allocation Methodology prepared by NSW DNSPs (the DNSP CAM) for the regulatory control period 2009-2014 must give effect to and be consistent with the Code. The DNSP CAM prepared by EnergyAustralia will apply to all of EnergyAustralia's standard control services, i.e. both SCS Distribution and SCS Transmission from 1 July 2009.

The Code also aligns with the Cost Allocation Principles under Chapter 6A and the cost allocation principles detailed in the ACCC's "Statement of principles for the regulation of transmission revenue – information requirements guidelines - 5 June 2002" and in the "Cost allocation guidelines" issued by the AER in September 2007. The only exception relates to the principles in Chapter 6A relating to allocations for negotiated transmission services. The approach to allocation in relation to both negotiated distribution (transmission) services and the negotiable components of distribution services have however been addressed in the DNSP CAM.

Consequently, this TNSP CAM prepared by EnergyAustralia is consistent with all of the relevant guidelines and principles required by clause 6A.19.4 of the Rules. This CAM has also been prepared to comply with the Cost Allocation Guidelines prepared by the AER under Rule 6A.19.3.

The Code encourages distributors to adopt activity based reporting and states that "activity based reporting principles should be adopted in the first instance and all financial items that can be allocated directly and reliably to a distribution function should be so allocated. Items that cannot be allocated directly and reliably without going to a great deal of effort, and only those items, should be pooled in a suitable common service category, to be allocated with reference to the principles (contained in Tables B, C and D.2 of the Code)".

Tables B, C and D of the Code provide for preferred and alternative allocation methods where activity based reporting is not used for operating expenditure items, corporate income items and balance sheet items.

In summary, the main underlying principles laid down by IPART in relation to cost allocations are<sup>6</sup>:

1. Cost that can be directly attributed to a business segment will be assigned accordingly,
2. Cost that are not directly attributable will be allocated by either
  - a) using an appropriate allocating factor (i.e. on a causation basis) or
  - b) if a causal allocating factor cannot be established without undue cost and effort, then using a non-causal but defensible basis.

The cost allocation principles detailed in the ACCC's "Statement of principles for the regulation of transmission revenue – information requirements guidelines - 5 June 2002" and in the "Cost allocation guidelines" issued by the AER in September 2007 are essentially the same as the cost allocation principles as prescribed by IPART above. These cost allocation principles are applied by EA in the derivation of the costs allocated to *transmission services*.

Other principles relating to cost allocation are:

- allocation of cost must be determined by its substance rather than its form
- the same cost must not be allocated more than once
- cost allocation principles must be consistent with the Transmission Ring-Fencing Guidelines
- costs which have been allocated to prescribed transmission services must not be reallocated to negotiated transmission services and
- costs which have been allocated to negotiated transmission services may be reallocated to prescribed transmission services to the extent they satisfy the cost allocation principles.

### **3.2 EnergyAustralia's financial system**

This proposed CAM document details the application of the allocation principles with respect to operating and capital expenditure.

Capital expenditure is the cost of acquiring assets that will provide future service potential or economic benefit to EnergyAustralia and relates generally to the (a) purchase or construction of new assets, (b) augmentation of existing assets or (c) replacement of existing assets.

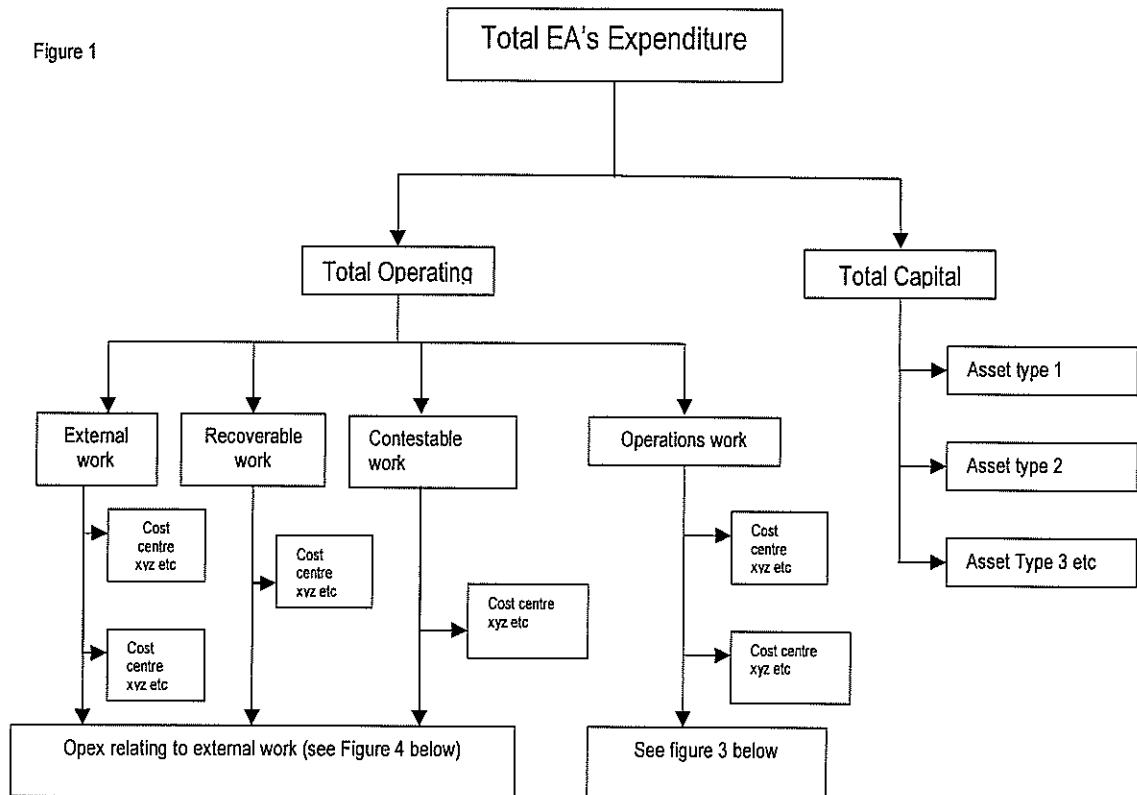
Operating expenditure describes costs that are incurred in normal day to day business operations of EnergyAustralia and are not capital in nature, i.e. not providing future service potential or economic benefits.

The following diagram depicts the disaggregation of expenditure in EnergyAustralia's financial system.

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<sup>6</sup> Section 3.5 "Principles of revenue and cost allocation" of IPART's Regulatory Information Requirements for Electricity Distributors in NSW – issue No. 1 – May 1997". This guideline was issued by IPART to support the Accounting Separation Code.

Figure 1



EnergyAustralia's financial system uses two cost collection objects known as order types and cost centres to capture expenditure.

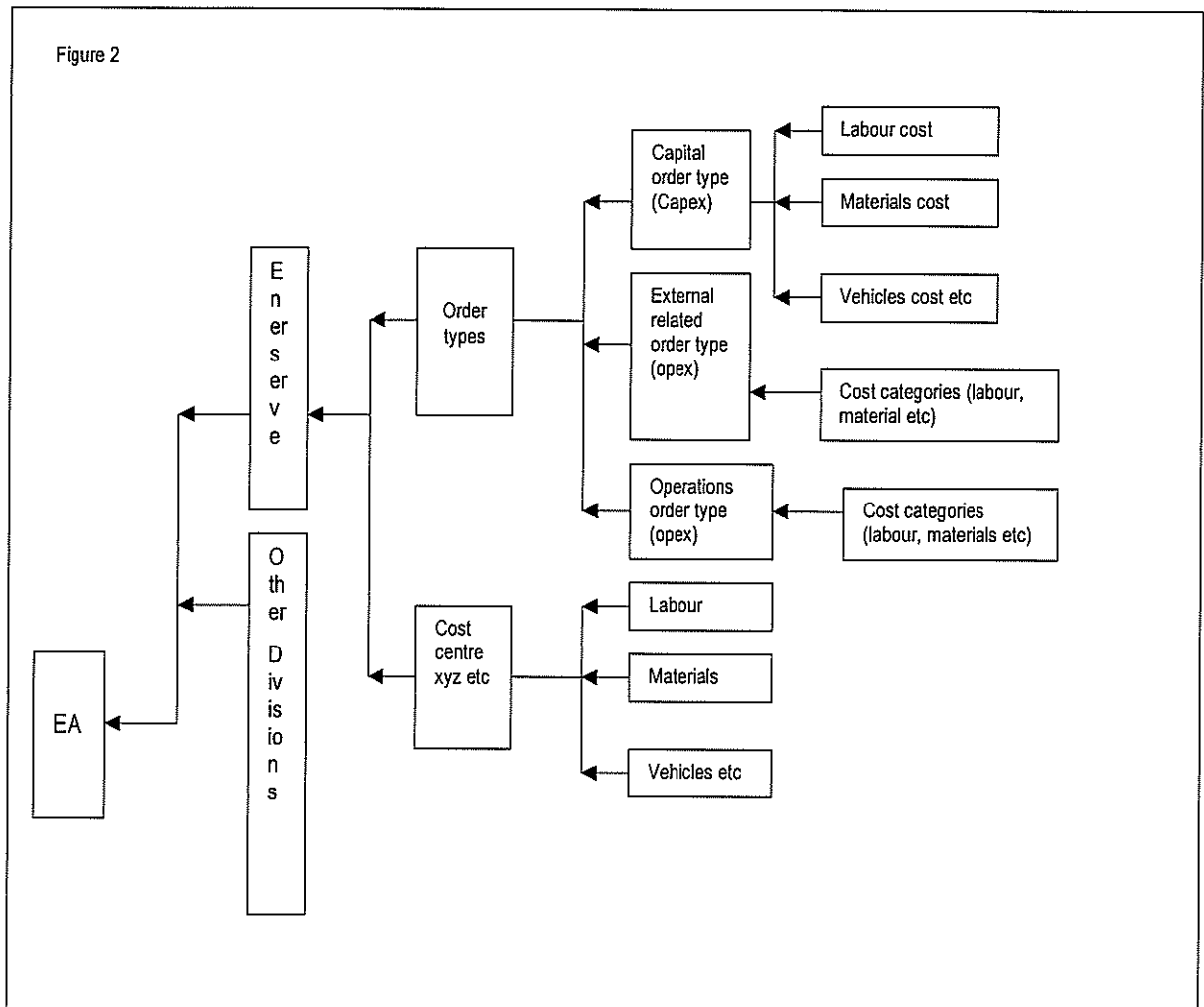
Order types are used to capture and disaggregate expenditure between operating and capital. Operating expenditure is further disaggregated between expenditure incurred on external, recoverable, contestable and operations works. Cost centres are business units that perform or engage in specific type/s of work. For example, a cost centre can incur costs of a capital and/or operating nature.

Cost centres are grouped into different divisions that reflect EnergyAustralia's organisational structure. EnergyAustralia is organised into four operating divisions and a holding company. The four divisions are:

- **Enerserve** – responsible for the maintenance and upgrade of EnergyAustralia's electricity infrastructure. This division also carries out some external work (eg. customer connections) and installs and maintains public lighting.
- **Network** – responsible for the operation of distribution and transmission networks.
- **Retail** – responsible for energy sales, marketing and wholesale activities.
- **Shared Services** – responsible for Retail and Network customer interfaces via the contact centres, billing and IT operational capability.

The holding company is responsible for corporate wide functions such as financial reporting, legal and internal audit.

### 3.3 Nature of cost items allocated



As well as using order types and cost centre to disaggregate expenditure, costs incurred by EA are also distinguished between different costs categories using collection objects known as “cost elements”. These cost elements capture cost categories such as labour (normal pay, labour overtime, labour oncost such as superannuation, sick leave and annual leave), materials, vehicles expenses, IT expenses, contracted services and consultancy, rent and insurance, FBT and taxes and other expenses. These cost categories are common to both operating and capital expenditure. An order type or cost centre can incur all different types of cost categories (for example, labour, materials, vehicles expenses etc) that make up the total operating or capital expenditure of that particular order type or cost centre.

Figure 2 above depicts the breakdown of costs of the Enerserve division. That is the total expenditure incurred by the Enerserve division is broken down to different order types and different cost centres. Each order type and cost centre captures expenditure by different cost categories. These cost categories then make up the total expenditure (operating or capital) for a particular order type or for a particular cost centre. This illustration of the breakdown of expenditure for the Enerserve division is applicable to other divisions (Network, Retail, Shared Services and Holding Company) of EA.

The cost allocation method, as a general rule<sup>7</sup>, applies the cost allocation principles to each work activity and each cost centre to determine the amount of expenditure to be allocated to the different *services*. That is, the total expenditure (the sum of the individual cost categories – labour, materials etc) incurred by an order type or a cost centre:

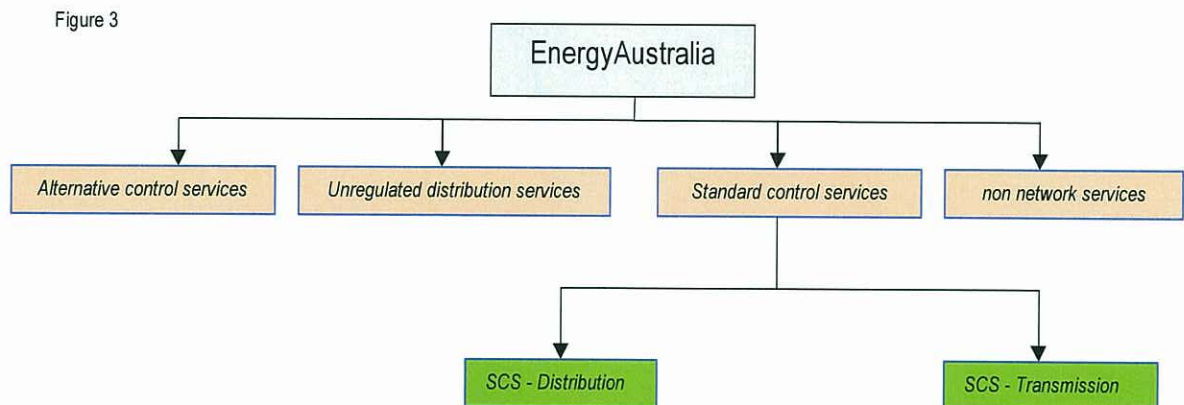
- can either be a direct cost or a shared cost
- is allocated to a specific *service* if it is a direct cost or between *services* if a shared cost and
- is allocated not more than once.

For example, order type “abc” (operations order type) is a direct cost and incurs a labour cost of \$10, material costs of \$15, vehicle costs of \$20 and other cost of \$5. The total operating expenditure incurred by this order type of \$50 is directly attributed to *standard control services*.

Additionally, it is the substance of the activities/functions undertaken by that particular work activity or cost centre that determines the allocation of the total expenditure incurred to a particular *service* or between *services*.

### 3.4 Operating Expenditure

The disaggregation of EnergyAustralia’s operating expenditure into the different *services* involves the application of the cost allocation principles at different “disaggregation levels”. This is illustrated by the diagram below.

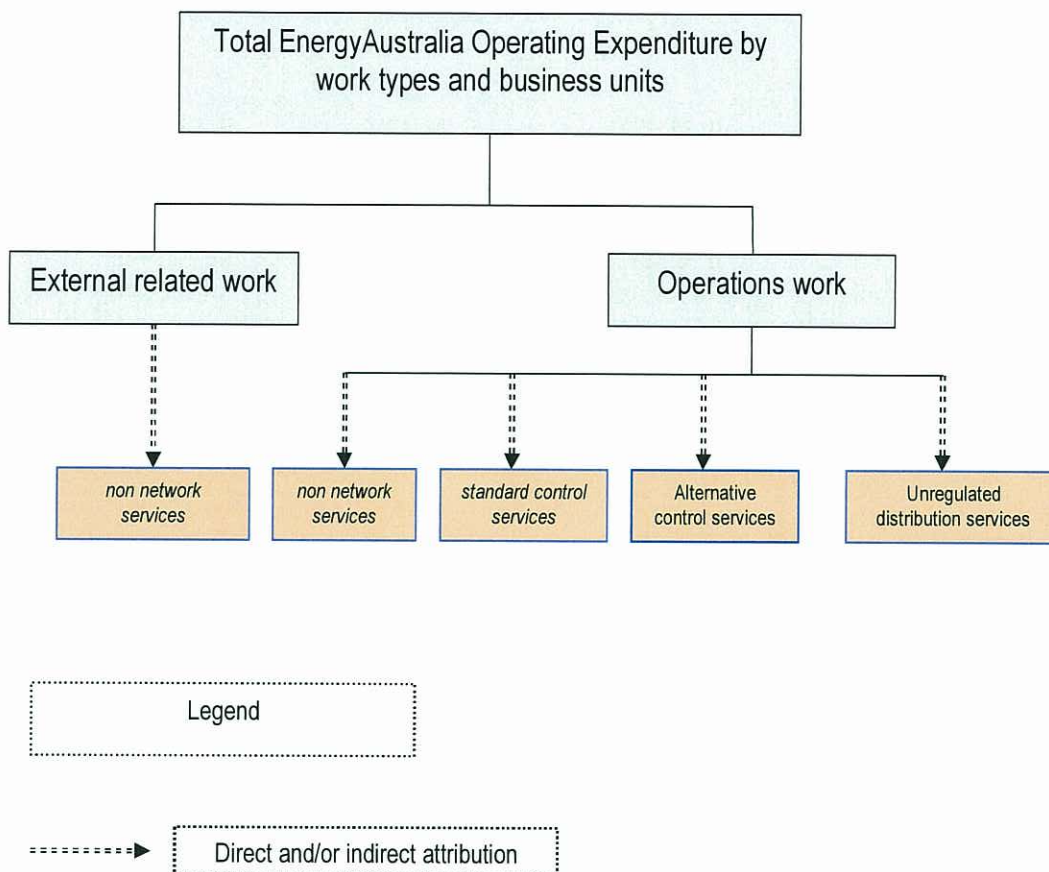


Firstly, the total operating expenditure of EnergyAustralia is dissected into *alternative control services*, *unregulated distribution services*, *standard control services* or *non network services*. This is the first level of disaggregation (level 1). *Standard control services* is then dissected between *standard control services - distribution* and *standard control services - transmission* (level 2).

<sup>7</sup> There are some exceptions to this general rule where the cost categories (for example land tax) are allocated to the different services.

### 3.4.1 Determining the disaggregation of Total operating expenditure into Level 1 Services

Figure 4



As outlined above in section 3.2 and figure 1, EnergyAustralia's financial system disaggregates costs according to the type of work and the business units that incurred the cost. Costs incurred with respect to external, contestable, recoverable works are directly attributable to the *non network services*. Costs incurred on operations work (expenditure relating to the normal day to day network operations) are either directly and/or indirectly attributed to *standard control services*, *alternative control services* or *unregulated distribution services*. This is illustrated by figure 4.

Figure 5

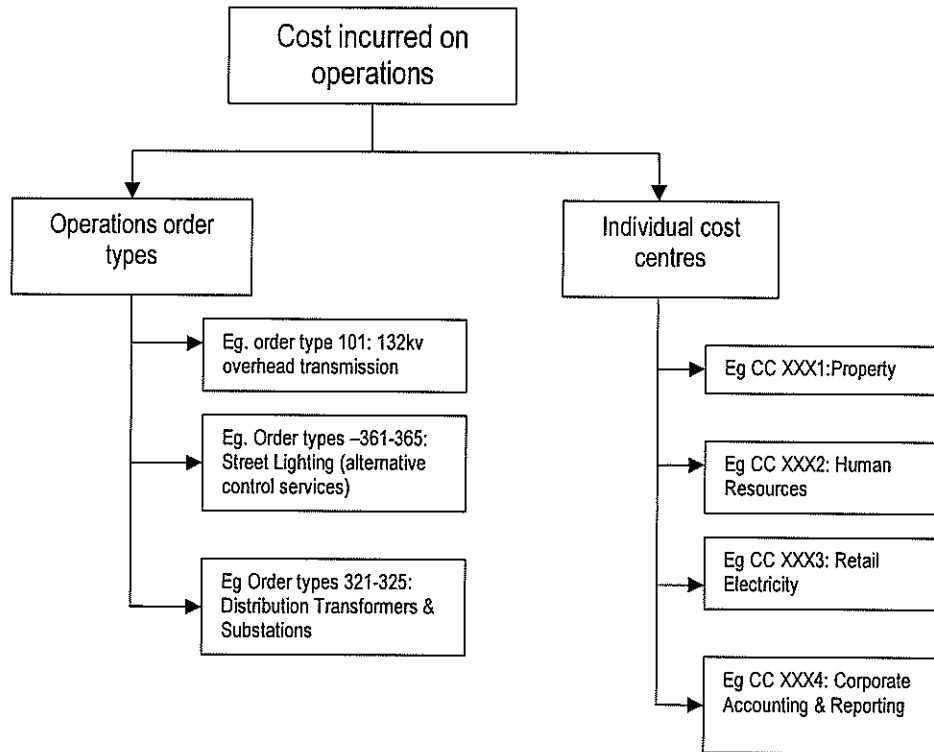


Figure 5 above shows the detailed breakdown of operating expenditure incurred on operations work. Cost relating to operations works is broken down into costs incurred on different work activities and by different individual cost centres. The nature of each work activity and each individual cost centres are reviewed and the cost allocation principles prescribed by IPART as outlined in section 3 above are applied to each individual work activities and cost centre to determine the amount of costs to be attributed to the different services.

For example, costs captured on order type "101: 132 kV overhead transmission" are directly and wholly attributed to *standard control services*; costs captured on order types '361-365: street Lighting' are directly and wholly attributed to *alternative control services*.

Similarly, costs captured on cost centre "XXX3: Retail Electricity" are directly and wholly attributed to *non network services*.

If a cost is shared between the different services, then it is allocated across the services using the preferred/alternative allocation methods as prescribed by IPART in tables B of the Code.

For example, costs incurred by cost centre "XXX1-Property" are allocated across the different services using floor space weighted by premium/non premium rent as the allocator. Floor space weighted by premium/non premium rent is the preferred allocation method prescribed by Table B of the Code for allocating costs relating to property management.

Similarly, costs incurred by cost centre "XXX2: Human Resources" are allocated across the different services using staff numbers, weighted by labour costs, as the allocator. In similar manner to floor space, staff numbers is the preferred allocation method in Table B of the Code.

In relation to cost centre "XXX4 – Corporate Accounting & Reporting", the costs incurred by this cost centre are allocated using "direct operating costs" as the approach prescribed in Table B of the Code. "Direct operating costs" is defined by IPART as "those operating expenses

attributed on an activity basis to natural monopoly network and other functions, including labour oncost, stores, transport.... prior to the indirect allocation of Corporate expenses...".

Based on this guidance contained in the Code, "direct operating costs" is calculated by EnergyAustralia as the relative proportion of costs of the four operating divisions (namely Enerserve, Network, Retail and Shared Services) that have been attributed to the different services. This direct operating costs allocation method is applied to cost centres of the Holding Company where an appropriate allocator, based on a causal relationship, cannot be established without undue cost and effort.<sup>8</sup>

### **3.4.2 Determining the disaggregation of Standard Control Services between Distribution and Transmission – Level 2**

Once the total operating cost have been separated between the different *services*, the *standard control services* costs are then disaggregated between *standard control services - distribution* and *standard control services - transmission* to distinguish between the costs incurred by EnergyAustralia in providing distribution services and transmission services in its role as both a DNSP and a TNSP.

The Glossary of the National Electricity Rules contains the following definitions, which are relevant to distinguishing between transmission and distribution costs<sup>9</sup>:

- A TNSP is "a person who engages in the activity of owning, controlling or operating a transmission system".
- A transmission system is defined as "a network of assets that operates at (a) nominal voltages of 220kV or (b) nominal voltages between 66kV and 220kV that operates in parallel to and provides support to the higher voltage transmission network or (c) nominal voltage between 66kV and 220kV that do not operates in parallel to and provides support to the higher voltage transmission network but is deemed by the AER to be transmission system.
- A DNSP is "a person who engages in the activity of owning, controlling or operating a distribution system".
- A distribution system is "a system that is not a transmission system".

Based on the above definitions, EnergyAustralia's business performs both DNSP and TNSP functions. Consequently, the allocation of the total *standard control services* costs between *SCS –Distribution* and *SCS – Transmission* is performed by identifying the relationship between the nature of the cost captured by each individual order types (as illustrated in figure 5 above) and the asset classes that are classified under the National Electricity Rules (the NER) as either transmission system assets or distribution network assets.

The allocation of the total *standard control services* costs between *standard control services - distribution* and *standard control services - transmission* are performed using three allocation methods. These methods are:

- (a) direct allocation to the *standard control services - distribution* of costs that specifically relate to this service. For example, costs incurred by the contact centres of Shared Services division in response to emergency calls relating to the distribution network or costs incurred in the maintenance of distribution overhead and underground cables are directly allocated to *standard control services – distribution*.

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<sup>8</sup> See also section 3.5 of IPART's "Regulatory Information Requirements for Electricity Distributors in NSW".

<sup>9</sup> Chapter 10 of the NER.

- (b) allocation based on transmission and distribution assets values. Under this allocation method, costs incurred on the maintenance of both transmission and distribution system assets are allocated between the *standard control services - distribution* and *standard control services - transmission* based on the proportion of the relevant distribution and transmission assets values. For example, if the cost is incurred for the maintenance of overhead and underground transmission mains, then the allocation of this cost between *standard control services – distribution* and *standard control services – transmission* is based on the respective values of overhead and underground mains assets that have been classified as transmission or distribution system assets according to the NER.
- (c) indirect allocation of remaining support/corporate costs based on the proportion of costs that have been allocated between *standard control services - distribution* and *standard control services - transmission* using the methods described in (a) and (b) above<sup>10</sup>.

The numeric percentages calculated using allocation methods (b) and (c) remain unchanged over the current regulatory control period (2004-2009). These percentages have been applied to the actual operating expenditure to derive the actual costs attributed to prescribed transmission services for reporting in EA's annual regulatory accounts since financial year 2004-05.

As mentioned in section 3.4 above, there are two levels of disaggregation. The first level is to disaggregate total EA's costs between *standard control services*, *alternative control services*, *unregulated distribution services* and *non network services*. The second level is the dissection of costs belonging to *standard control services* between *standard control services – distribution* and *standard control services – transmission*.

Therefore, a cost that is a direct cost and directly attributed to *standard control services* at level 1 could either be (i) directly attributed to *standard control services – distribution* or (ii) allocated between *standard control services – distribution* and *standard control services – transmission* based on an allocation method described in (b) or (c) above.

Conversely, a cost that is a shared cost and is allocated to *standard control services* at level 1 could either be (i) directly attributed to *standard control services –distribution* or (ii) allocated between *standard control services – distribution* and *standard control services – transmission* based on an allocation method described in (b) or (c) above.

To date, there are no costs that can be directly attributed to *standard control services – transmission*.

### 3.5 Capital Expenditure

As noted in section 3.2 and figure 1 above, EnergyAustralia's financial system uses a specific set of order types to disaggregate capital expenditure between different asset types. These asset types can be classified as system assets or non system assets. System assets are those assets that form the distribution, transmission or public lighting system network. An example of a non system asset is administrative and office land and buildings.

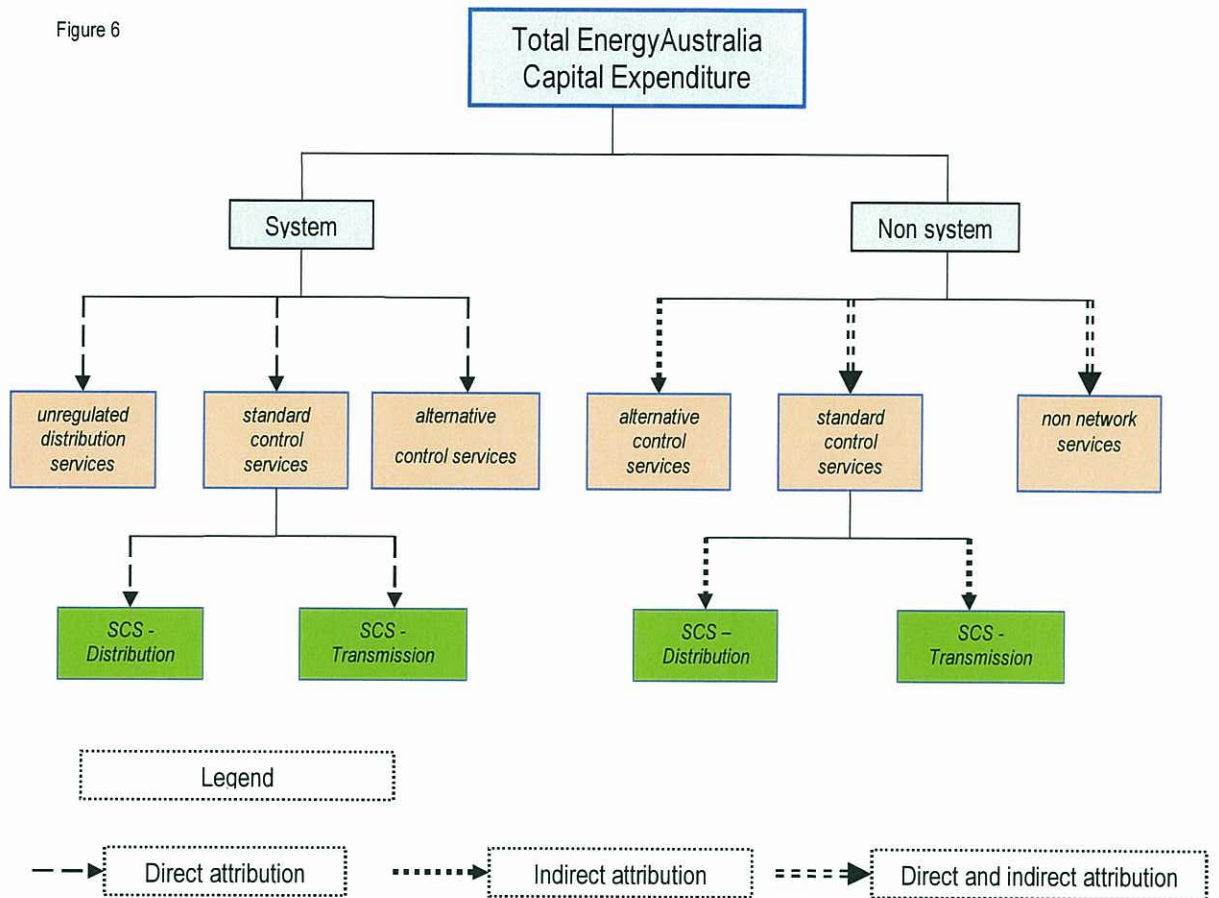
This disaggregation is utilised to effect the allocation of capital expenditure between *standard control services*, *alternative control services*, *unregulated distribution services* and *non network*

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<sup>10</sup> It can be said that this method is similar to the "direct operating costs" method preferred by IPART in its Accounting Separation Code. "Direct operating costs" is defined as "those operating expenses attributed on an activity basis to natural monopoly network and other functions, including labour oncost, stores, transport...prior to the indirect allocation of corporate expenses..."

services in the first instance and allocation of the *standard control services* capital expenditure between *standard control services – distribution* and *standard control services – transmission*.

The following diagram illustrates the allocation of capital expenditure between the different services.



Total capital expenditure is allocated as follows:

- capital expenditure on system assets are wholly and directly allocated to either *standard control services*, *alternative control services* or *unregulated distribution services*.
- capital expenditure on non system assets that are used for the provisions of *standard control services* or *non network services* or that are incurred by business units involved in *standard control services* or *non network services* are allocated wholly and directly to *standard control services* or *non network services* respectively.
- remaining capital expenditure incurred by other business units is allocated between *standard control services*, *alternative control services* or *non network services* using an appropriate allocator. For example, capital expenditure on non system land and

buildings is allocated across the different services using floor space weighted by premium/non premium rents.<sup>11</sup>

The allocation of capital expenditure of *standard control services* between *standard control services - distribution* and *standard control services - transmission* are as follows:

- a) capital expenditure on system network assets are directly attributed to either *standard control services - distribution* or *standard control services - transmission*. A transmission system is defined by the NER as “a network of assets that operates at (a) nominal voltages of 220kV or (b) nominal voltages between 66kV and 220kV that operates in parallel to and provides support to the higher voltage transmission network or (c) nominal voltage between 66kV and 220kV that do not operates in parallel to and provides support to the higher voltage transmission network but is deemed by the AER to be transmission system.
- b) non system capital expenditure are allocated between *standard control services - distribution* and *standard control services - transmission* based on transmission system assets as a proportion of total system assets. This proportion was 12.4% as at the time of making the current Distribution and Transmission decisions and is applied for the current 2004-2009 regulatory period.

### **3.6 Negotiated Services (Negotiated Distribution Services and Negotiable Components of Direct Control Services)**

It should be noted that currently costs incurred by EA are allocated to *prescribed transmission services* only. No costs to date are allocated to *negotiated transmission services*.

At the time of submitting the 2006-07 regulatory accounts, and at the time of submitting this CAM, EA had no identified negotiated transmission services which will be termed negotiated distribution services under the Transitional Rules for the next regulatory control period.

However, EA expects that over the course of the 2009-2014 regulatory period there is a reasonable likelihood (but not a certainty) that negotiated distribution services will arise. These services would most likely be provided to large load (customers) either connecting directly or reconfiguring an existing connection to the transmission network.

EA has been developing its approach to delineating negotiated transmission services from prescribed transmission services for the purposes of determining “negotiated distribution services” for the next regulatory determination. Once the delineation between services has been agreed between EA and the AER, EA will be in a better position to establish the likelihood and extent of services provided under the negotiated distribution service category.

Similarly, in relation to the Negotiable Component of Direct Control Services, EA is currently preparing its proposal as to whether (any and if so which) components of direct control services should be negotiable components. These services could be provided to any load customers connected or connecting to EA's distribution system.

Nevertheless, if a negotiated distribution service or a negotiable component of a direct control service is identified, EA intends to price this service in a manner consistent with the cost allocation principles being:

1. Cost that can be directly attributed to a business segment will be assigned accordingly,

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<sup>11</sup> Table D.2 of the Code specified floor space as the preferred allocation method for Corporate buildings and site improvements assets. EnergyAustralia has applied this preferred allocation method to the allocation of capital expenditure incurred on corporate (non system) land and buildings.

2. Cost that are not directly attributable will be allocated by either
  - a. using an appropriate allocating factor (i.e. on a causation basis) or
  - b. if a causal allocating factor cannot be established without undue cost and effort, then using a non-causal but defensible basis.
3. Costs that have been allocated to prescribed transmission services, however, will not be reallocated to negotiated transmission services.

At this stage, EA anticipates that the costs attributed and/or allocated to negotiated distribution services and negotiable components of direct control services will be undertaken at the network level, i.e. costs will be allocated to these negotiated services at the same time that costs are allocated to standard control services, alternative control services and non-network services as seen in section 3.4.1 above. While, this is EA current expectation, the ultimate implementation of the cost allocation regime will of course be dependent upon the facts of the negotiated service identified and the procedural approach that best reflects the costs of providing that service in accordance with the cost allocation principles set out above.

## 4. Accountabilities

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### 4.1 Review and approval process

The above allocation methods were used by IPART and the ACCC when making the current distribution and transmission decisions, and have subsequently been confirmed by the AER as the appropriate methods to be applied by EnergyAustralia in its annual regulatory accounts of the current regulatory period 2004-2009.

The annual regulatory accounts submitted to IPART and AER are subjected to an internal governance process. This governance process is conducted by:

- the relevant finance sections;
- Senior Executive;
- Audit and Compliance Committee and
- Board of Directors.

Additionally, EA is required to engage an independent audit firm to review the regulatory accounts in the form of an agreed upon procedures. This independent review report, together with the annual regulatory accounts and a directors' responsibilities statement are submitted to the regulators.

In the CAM document that EA had submitted to the AER as required under the Transitional Rules, EA had proposed the same cost allocation method as described above to be applicable for the next regulatory control period 2009-2014.

The Network Regulation and Pricing branch of EA is responsible for co-ordinating the preparation, update, maintenance and submission of this CAM with inputs from the various internal stakeholders.

### 4.2 Record keeping, internal monitoring and reporting

As noted in section 3.2 above, EA is organised into five different divisions, each with its own divisional finance section responsible for all aspects of financial reporting relevant for that division. This includes maintaining the relevant documents/data that support the allocation of that division costs between the different *services*.

The finance section of holding company ('corporate finance'), with the assistance of the divisional finance sections, is responsible for the compilation and co-ordination of the annual regulatory accounts for submission to the senior executive, audit and compliance committee and board of directors. Corporate finance is also responsible for internally monitoring and reporting to the Finance Executive Committee, on the cost allocation method used for the disaggregation of total EA's costs between *standard control services, alternative control services, unregulated distribution services and non network services* ('level 1' disaggregation). This internal review is conducted periodically during the financial year to ensure that the cost allocation are adhered to and appropriately applied.

Financial data are captured and maintained in IT systems known as SAP and TM1. Documentation of the calculation of the allocation percentages are performed and maintained predominantly in Excel files which are stored in EA's IT network directories.