



CitiPower Pty
Cost Allocation Method

Date: April 2014
Version number: 9

Version history and date of issue

Section 3.2(a)(1) of the Australian Energy Regulator's Cost Allocation Guidelines requires that this Cost Allocation Method include a version number and date of issue. This is detailed in the following table.

Version number	Date of issue	Pages
Version no: 0.1	July 2009	23
Version no: 0.2	November 2009	27
Version no: 0.3	December 2009	28
Version no: 0.4	January 2010	27
Version no: 0.5	January 2010	27
Version no: 0.6	January 2010	27
Version no: 0.7	January 2010	27
Version no: 8	October 2013	26
Version no: 9	April 2014	28

CONTENTS

Version history and date of issue..... 1

1. Introduction 3

2. Background..... 3

3. Nature, scope and purpose of CAM..... 4

4. Date of commencement 4

5. The way in which the CAM will be used by CitiPower..... 4

6. Responsibilities for CAM within CitiPower..... 5

7. CitiPower’s corporate structure 6

8. Operating structure of CitiPower 6

9. CitiPower’s categories of distribution services 8

10. Types of persons to whom distribution services are provided 8

11. CitiPower’s cost allocation principles and policies..... 11

11.1 Overview..... 11

11.2 Treatment of directly attributable costs 12

11.3 Treatment of Shared Costs 18

11.4 Substance over legal form 25

11.5 Attribution of Direct Costs 25

11.6 Allocation of Shared Costs 25

11.7 Not allocate the same cost more than once 25

11.8 Consistency with Distribution Ring-Fencing Guidelines 25

11.9 No reallocation of costs between categories of distribution services 25

12. Record keeping 26

13. Monitoring compliance 26

Attachment 1 – CAG Requirements for Directly Attributable costs..... 27

Attachment 2 – CAG Requirements for shared costs 28

1. Introduction

CitiPower Ltd (**CitiPower**) holds one of the five electricity distribution licences in Victoria and is the largest electricity distributor supplying electricity to regional and rural centres in central and western Victoria, and Melbourne's outer western suburbs.

CitiPower is a wholly owned subsidiary of CHEDHA Holdings Pty Ltd (CHEDHA). Cheung Kong Infrastructure Ltd (CKI) and Hongkong Electric Holdings Ltd (HEH) together own 51 per cent of CHEDHA and the remaining 49 percent is owned by Spark Infrastructure. Spark Infrastructure began trading on the Australian Stock Exchange in December 2005.

CitiPower's primary purpose is the distribution of electricity to end users. Its key regulated distribution activities for which it receives regulated revenues include:

- Maintaining the safety and reliability of the distribution system;
- Meeting the network capacity needs of our customers;
- Extending and upgrading the network;
- Connecting customers to the network;
- Maintaining the public lighting system;
- Acting as the meter data collector and data provider to retailers; and
- Facilitating transfer of customers between retailers.

2. Background

Clause 11.17.5(a) of the National Electricity Rules (**Rules**) requires each Victorian Distribution Network Service Provider (**DNSP**) to submit their proposed Cost Allocation Method (**CAM**) together with their building block proposal to the Australian Energy Regulator (**AER**) for its approval.

The AER has published Victorian specific Cost Allocation Guidelines entitled "*Victorian Electricity Distribution Network Service Providers Cost Allocation Guidelines*", June 2008 (**CAG**). This CAM includes the matters required by section 3.2 of the CAG which set out the required format and contents of the CAM.

CitiPower has not previously been required to prepare a CAM for formal approval by the Essential Services Commission of Victoria's (**ESCV**). Rather it has prepared its annual Regulatory Accounts in accordance with the requirements of the ESCV'S *Guideline No. 3 Regulatory Accounting Information Requirements Final Decision December 2006*. This CAM is consistent with the methodology used to prepare CitiPower's 2008 regulatory accounts, except for where CitiPower or the AER have proposed changes to the current service classification. This is discussed in section 9 of this CAM.

3. Nature, scope and purpose of CAM

Section 3.2(a)(2) of the CAG requires that this CAM include a statement of its nature, scope and purpose.

The purpose of this CAM is to:

- Give effect to, and be consistent with, the CAG as required by section 3.1 of the CAG;
- Document and detail how CitiPower will attribute costs to or allocate costs between its Distribution Services; and
- Allow effective comparison of historical and forecast cost allocation between the current regulatory control period, for which the ESCV was responsible, and the next regulatory control period as required by clause 11.17.5(d)(2) of the Rules.

CitiPower confirms that, in accordance with clause 11.17.5(d)(1) of the Rules, this CAM has been prepared using the same cost allocation method previously used to prepare the 2008 regulatory accounts for the ESCV.

CitiPower's approved CAM will be published on its website as required by clause 6.15.4(h) of the NER.

4. Date of commencement

Section 3.2(a)(9) of the CAG requires that this CAM include a commencement date.

This CAM will commence on 1 January 2016 unless the AER sets a different date in accordance with section 4.1(d) of the CAG, in which case it will commence on the date set by the AER. This CAM will remain in force until CitiPower and the AER agree that it will cease or that it will be replaced.

Upon its commencement this CAM will supersede and replace the existing cost allocation arrangements which CitiPower has operated under while it has been regulated by the ESCV.

5. The way in which the CAM will be used by CitiPower

Section 3.2(a)(2) of the CAG requires that this CAM include a statement of the way in which it will be used by CitiPower.

This CAM will be used by CitiPower for, amongst other things, the purposes set out in section 5.1(b) of the CAG, being to:

- Prepare forecast operating expenditure to be submitted to the AER in accordance with clause 6.5.6 of the Rules;
- Prepare forecast capital expenditure to be submitted to the AER in accordance with clause 6.5.7 of the Rules;

- Develop prices for a negotiated distribution service determined in accordance with clause 6.7.1 of the Rules;
- Prepare annual statements in accordance with a future regulatory information instrument; and
- Prepare actual or estimated capital expenditure for the purposes of increasing the value of its regulatory asset base under Schedule 6.2.1(f) of the Rules.

6. Responsibilities for CAM within CitiPower

Section 3.2(a)(3) of the CAG requires that this CAM include details of the accountabilities within CitiPower for this CAM in order to set out clearly:

- CitiPower's commitment to implementing the CAM; and
- Responsibilities within CitiPower for updating, maintaining and applying the CAM and for internally monitoring and reporting on its application.

CitiPower is committed to applying the detailed principles and policies described in this CAM as the basis for directly attributing costs to, or allocating costs between, categories of Distribution Services provided by CitiPower.

Responsibility for this commitment principally rests with CitiPower's Chief Financial Officer.

The day-to-day responsibility for the CAM, including updating, maintaining, applying, internally monitoring and reporting on its application, including ensuring compliance with the CAG, is the responsibility of the Corporate Finance Group.

The organisational structure for CAM responsibilities is shown in Figure 1.

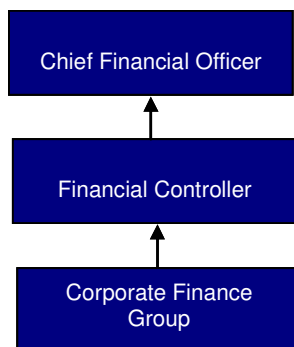


Figure 1: Responsibility for CAM

7. CitiPower's corporate structure

Section 3.2(a)(4) of the CAG requires that this CAM include a description of CitiPower's corporate structure.

CitiPower is a wholly owned subsidiary of CHEDHA Holdings Pty Ltd (CHEDHA). Cheung Kong Infrastructure Ltd (CKI) and Hongkong Electric Holdings Ltd (HEH) together own 51 per cent of CHEDHA and the remaining 49 percent is owned by Spark Infrastructure, which began trading on the Australian Stock Exchange in December 2005.

CitiPower out-sources a number of its functions including, amongst other things, its field services work and back-office services (including corporate services, customer services, and information technology (IT) support services).

The primary purpose of CitiPower is the distribution of electricity in its distribution supply areas as determined by its Licence. These areas include regional and rural centres in central and western Victoria.

The corporate structure CitiPower is shown in Figure 2.

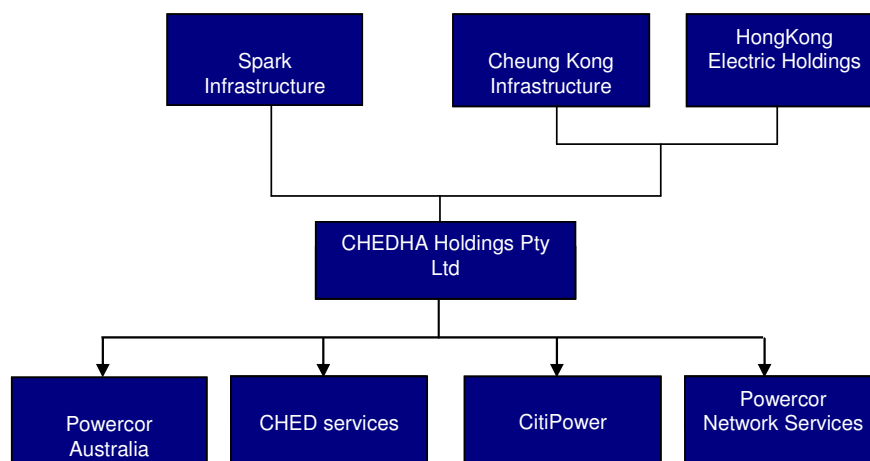


Figure 2: CitiPower's corporate structure

8. Operating structure of CitiPower

Section 3.2(a)(4) of the CAG requires that this CAM include a description of CitiPower's operational structure.

From an operational perspective, CitiPower is structured on the basis of Business operation units. A brief summary of these business operation units is provided below. CitiPower's business operation units are overseen and managed by the Chief Executive Officer (CEO) and the Joint Management Team (JMT), which comprises general managers from each of nine business operation units.

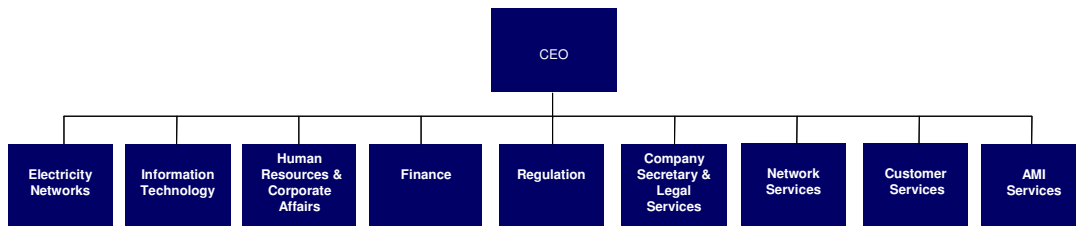


Figure 3: CitiPower's Operating Structure

- **Electricity Networks** – Responsible for the provision of network asset inspection and maintenance, network asset strategy and performance, network control and operations, network customer projects, network engineering, network safety, environment and compliance and regional asset management;
- **Network Services** – Responsible for the provision of field services including amongst other things customer and connection services, asset replacement maintenance services and asset performance (fault) services;
- **Information Technology** – Responsible for the provision of IT services relating to the maintenance and support of UNIX / Windows, full retail contestability (FRC) and metering systems, SAP, spatial applications, electronic mail, help desk services, desktop services, internet services, application development, customer information systems, disaster recovery, security and MSATS interaction;
- **Human Resources and Corporate Affairs** – Responsible for the provision of corporate human resource functions including development of strategies, policies and procedures, performance reviews, monitoring equal opportunity, dispute resolution and recruitment. Also responsible for the management of human resource records, industrial and employee relations, occupational health and safety and payroll administration;
- **Finance** – Responsible for the provision of financial accounting, management accounting, taxation, treasury and risk, financial planning and analysis, strategic planning and corporate risk and property services;
- **Regulation** – Responsible for the provision of network and excluded services pricing, network regulation, compliance and distribution price review;
- **Company and Legal Services Strategy** – Responsible for the provision of legal services, audit services, real-estate management and company secretary;
- **Customer Services Group** – Responsible for the provision of business management, call centre, customer response, special reading, meter data management, billing, retailer and customer relations; and
- **Advanced Metering Infrastructure (AMI) Services Group** – Responsible for the deployment of AMI meter accelerated rollout, AMI project management and Strategy, AMI technology, AMI meter installations, AMI communications equipment installation and supply. Also responsible for metering business as usual activities and transition to AMI services.

9. CitiPower's categories of distribution services

Section 3.2(a)(5) of the CAG requires that this CAM include a specification of the categories of CitiPower's Distribution Services to which costs are to be attributed or allocated.

Set out below are the categories of Distribution Services provided by Powercor Australia in accordance with the Victorian electricity distribution network service provider's final determination 2011-15 and the Victorian AMI Cost Recovery Order in Council.

Standard Control Services, the costs of which are recovered via Distribution Use of System tariffs. Standard Control Services include:

- Planning, design and construction of the distribution network including new connections requiring augmentation.
- Maintenance and operation of the distribution network and connection assets including vegetation management, fault restoration, asset inspection, planned maintenance, emergency response and associated administrative support.
- Location of underground cables

AMI Services, which are activities within scope as set out in Schedule 2 of the Victorian AMI Cost Recovery Order in Council or those services for which the charges have been approved under the Victorian AMI Cost Recovery Order in Council. Services include:

- AMI services for which cost are recovered via a pass-through arrangement
- Bring forward of AMI meter installation
- Metering services for unmetered supplies
- Remote meter re-configuration
- Remote re-energisation
- Remote de-energisation
- Remote special meter read

Alternative Control Services, the costs of which are recovered by either a fixed fee approved by the AER or by a quoted price based on hourly labour rates approved by the AER and recovery of materials at cost.

Fee based services include:

- Routine connections for customer connections below 100 amps
- Temporary supply services
- Service truck visit
- Wasted truck visit
- Fault response – not DNSP fault
- Solar PV connection

- Meter accuracy test
- Meter investigation test
- Manual re-energisation
- Manual de-energisation
- Manual special meter read
- Re-test of type 5 & 6 metering installations for first tier customers with annual consumption greater than 160MWh
- Reserve feeder
- Operation, repair, replacement and maintenance of DNSP public lighting assets

Quoted services include:

- Routine connections for customer connections above 100 amps
- Supply abolishment
- Rearrangement of network assets at customer request, excluding alternation and relocation of existing public lighting assets
- Supply enhancement at customer request
- Emergency recoverable works
- Auditing of design and construction
- Specification and design enquiry
- Elective underground service where an existing overhead service exists
- Damage to overhead service cables caused by high load vehicles
- High load escorts
- Covering low voltage mains for safety reasons
- After hours truck by appointment

Negotiated Services, which are subject to the negotiated distribution services criteria and negotiating framework approved by the AER. Negotiated Services include:

- Alteration and relocation of DNSP public lighting assets
- New public lighting assets at greenfield sites
- New lighting types not subject to an existing regulated charge

Unregulated distribution services, which include:

- Provision of possum guards
- Repair, installation and maintenance of watchman lights

10. Types of persons to whom distribution services are provided

Section 3.2(a)(5) of the CAG requires that this CAM include an explanation of the types of persons to whom CitiPower provides Distribution Services.

CitiPower provides its Distribution Services to:

- *Electricity Retailers* – Retailers purchase wholesale energy that is transported through SP AusNet's transmission system, and CitiPower's distribution system, to end-use customers. CitiPower provides Distribution Services to competing electricity retailers operating in the Victorian market. CitiPower also provides metering services; and
- *End-Use Customers* – CitiPower provides a range of fee based and quoted services to premises in its distribution area. These fee based and quoted services including amongst other things field truck visits and customer connection services; and
- *Other* – CitiPower provides a range of connection services, street lighting services, quoted services and fee based services to a number of other parties including registered electrical contractors (REC), builders, developers, public lighting authorities including local councils and Vic Roads and other distribution network service providers.

11. CitiPower's cost allocation principles and policies

Section 3.2(a)(6) of the CAG requires that this CAM includes CitiPower's detailed principles and policies for attributing costs directly to, or allocating costs between, categories of Distribution Services in order to meet the requirements of section 2.2 of the CAG, including the attribution or allocation of costs relating to any related party transactions.

11.1 Overview

Accounting system

CitiPower's integrated business management system (SAP system) is used to collect and report its costs and revenues. CitiPower's Chart of Accounts classifies all costs and revenues by General Ledger ("GL") account numbers which map to reporting categories on the balance sheet and profit and loss statement. Each cost or revenue transaction is also assigned to a profit centre. Each cost item is also assigned a function code and in some cases an activity type.

The corporate services fee in the SAP system covers services for different categories of distribution service. The corporate service provider makes available a break down of its fees to allow costs to be directly attributed to categories of distribution service.

CitiPower confirms that it will ensure that the allocation of costs, incurred from all third party providers including related parties, between distribution services are allocated in accordance with its CAM.

Directly attributing costs to categories of distribution services

The SAP system and corporate service break down of fees enables some costs to be directly attributed to a category of distribution service in accordance with the requirement of section 2.2.3 of the CAG. Section 11.2 of this CAM details the costs that are directly attributed to a category of distribution service. The records maintained in the SAP system, the processes for inputting records into the SAP system and corporate service break down of fees can be reviewed. The basis of directly attributing costs in accordance with section 2.2.3 of the CAG can therefore be readily verified by an independent third party and the outcome can be replicated by the AER.

Allocation between categories of distribution service

The remaining distribution services costs in the SAP system are allocated between categories of distribution service in accordance with section 2.2.4 of the CAG using excel models. Section 11.3 of this CAM details the costs that are shared between categories of distribution service. The excel models are capable of being reviewed. The basis of allocating costs in accordance with section 2.2.4 of the CAG can therefore be readily verified by an independent third party.

No double counting of shared costs

No costs are double counted. Both directly attributed and shared costs are sourced from the SAP system. The records maintained in the SAP system, and the processes for inputting records into the SAP system, are capable of being reviewed. The requirement of section 2.2.5 of the CAG not to double count shared costs can therefore be readily verified by an independent third party.

Further, CitiPower confirms that the net financial impact of the respective Resource Agreements between itself and CHED Services; and itself and Powercor Network Services (PNS) is zero. This is because 100 per cent of the costs incurred in servicing the Resource Agreements are netted off before the allocation of costs to categories of distribution services.

Independent external audit

CitiPower will engage an independent external auditor to provide assurance that it has allocated its costs in accordance with its approved CAM once it take effect on 1 January 2011.

11.2 Treatment of directly attributable costs

CitiPower provides the following information to address the requirements of section 2.2.1(b)(1) of the CAG in relation to the treatment of Directly Attributable Costs. Section 2.2.1(b)(1) of the CAG is detailed in Attachment 2.

The operating and capital costs incurred by CitiPower that are directly attributable to a category of distribution service are set out in Table 1 below and include:

Operating expenditure:

The following categories of operations and maintenance expenditure:

- Maintenance – This largely relates to:
 - For standard control services – operational repairs and maintenance of the distribution system including high voltage and low voltage assets. This includes testing, investigation, validation and correction costs (not involving capital expenditure). This category also includes location of underground cables and covering of low voltage mains for safety reasons;
 - For alternative control services – maintenance of public lighting, as well as scheduled maintenance, meter investigations, special readings, and PV installations;
 - For AMI pass-through services – maintenance of meters and time switches.
- Network operating – This largely relates to:
 - For standard control services – external/ contractor and professional services labour and related costs, materials costs, taxes insurance and property running costs;
 - For alternative control services – customer supply negotiations (preparing budget estimates for new or increased supply), labour costs for standard customer connection services, special meter reading, de-energisations and re-energisations and the installation of accumulation meters and time switches;
 - For AMI pass-through services – AMI project management including technology selection, forecasting, program management office, business transformation and asset management plan and information technology;
- Meter data services – This relates to meter data services for AMI pass-through services;

- Billing and revenue – This relates to bad and doubtful debts for standard control services;
- Regulatory –
 - For standard control services – license fees and consulting fees; and
 - For AMI pass-through services – consulting fees
- Other –
 - For standard control services – services fees, Energy Safe Victoria fees, and sponsorship fees; and
 - For alternative control services – overheads in relation to capital expenditure (for regulatory purposes)

Capital expenditure:

The following categories of capital expenditure are directly attributable to standard control services except “metering” which is directly attributable to AMI pass-through services and “public lighting” which is directly attributable to alternative control services.

- Demand related expenditure – This largely relates to:
 - Reinforcement expenditure such as augmentation of lines, zone substation, connection assets and SWER; and
 - Routine and non-routine new customer connections including extending or upgrading the network to provide supply (overhead and underground) to new customers. This also includes a number of associated customer charges including:
 - Auditing of design and construction services;
 - Specification and design enquiry;
 - Temporary supply services;
 - Elective underground service where an existing overhead service exists; and
 - Fault level compliance
- Non-demand related expenditure – This largely relates to:
 - Reliability and quality maintenance – Including:
 - Replacement of assets such as cross-arms, poles, transformer and switches due to faults (including faults caused by third parties) or operational damage;
 - Treatment of assets to extend their useful life such as bird covers, pole treatment (to retard deterioration) and pole staking and replacement of assets that have reached the end of their useful lives; and
 - Replacement of assets that have reached the end of their lives.
 - Reliability and quality improvements such as designing, procuring, installing and commissioning equipment to improve reliability performance of the distribution system including zone substations and associated equipment;

- Environmental, safety and legal programs initiated to comply with safety regulations and obligations including electrical safety, environmental protection measures (i.e. bunding works, storm water management, noise abatement), bushfire mitigation and pole fire mitigation;
- SCADA / Network control – This relates to CitiPower's remote control and monitoring systems and field infrastructure;
- Non-network – this relates to:
 - Information technology including computer equipment, software and systems; and
 - The purchase of amongst other things land and buildings, motor vehicles, plant and equipment and capitalised tools and equipment.
- Metering – This relates to:
 - Meters – The replacement of existing type 5 and 6 accumulation meters (for customers consuming less than 160MWh) with remotely read interval meters;
 - IT – The software and systems used to support metering data services;
 - Communications – The equipment used to transfer data from AMI meters to a central collection point; and
 - Other meter-related capital expenditure.
- Public lighting – This relates to costs associated with providing new public lighting such as poles, lighting brackets lanterns and underground cable.

As noted, these costs are directly attributable to categories of distribution services, (standard control services, alternative control services and negotiated services) and are set out in Table 1 below. CitiPower confirms that the services listed in Table 1 comprise an exhaustive list of directly attributable services as at the time of preparing this CAM.

Direct costs are primarily attributed directly to the relevant service via function codes. In some cases profit centres and activity type are also used.

CitiPower has used an avoided cost approach to directly attribute some costs to certain categories of distribution services. CitiPower confirms that:

- Table 1 below identifies which costs have been directly attributed using an avoided cost approach;
- If the amount of these shared costs that are allocated on an avoided cost basis that are attributable to other distribution services becomes material, then CitiPower will amend section 11.2 and 11.3 of its CAM in accordance with clause 4.2(a) of the AER's CAG; and
- It agrees with, and will apply, the definition of "materiality" as set out in the AER's CAG being:

An item is material if its omission, misstatement or nondisclosure has the potential to prejudice the understanding of the financial position of the DNSP, gained by an assessment of financial information relating to the DNSP.

CitiPower's Cost Allocation Method

	Nature of each cost item	Category of distribution services to which the cost item is to be <u>directly attributed</u>	Characteristics that associate the cost item uniquely with a category of distribution service	How and where records will be maintained to enable the basis of attribution to be audited
OPERATIONS AND MAINTENANCE				
Maintenance	Faults Zone sub-station maintenance Road management Overhead line maintenance Asset inspection - distribution system Safety compliance Vegetation control Environmental management Pole defect Other maintenance	Standard control	Function code and profit centre	SAP system
	Public lighting faults Public lighting – main roads Meters and time switches – compliance tests Asset inspection – public lighting	Alternative control services	Function code and in some cases function code and activity types	SAP system
	Reserve feeder	Alternative Control Service	Function code	SAP system
	Meter maintenance and investigation	AMI service / Alternative Control Service	Function code and activity type	SAP system
Network operating	External / contractor / professional services labour Network salaries and related costs Insurance Damage payments Land tax Materials GSL payments Fringe benefit tax Phone / fax / internet	Standard control	Profit centre, function code and account code	SAP system
	De-energisations Re-energisations Service truck activities i.e. wasted truck visit Routine connections meter installation (labour) – accumulation and interval meters	AMI service / Alternative Control Service	Function code and activity type. In some cases costs are notified in a letter from the relevant service provider.	SAP system and letter from relevant service provider.

CitiPower's Cost Allocation Method

	Nature of each cost item	Category of distribution services to which the cost item is to be <u>directly attributed</u>	Characteristics that associate the cost item uniquely with a category of distribution service	How and where records will be maintained to enable the basis of attribution to be audited
	Public lighting replacement			
	AMI service fee IT AMI	AMI service		
Meter data services	Meter data services	AMI service	Costs are notified in a letter from the relevant service provider.	Letter from relevant service provider
Billing and revenue	Bad debts and doubtful debts ¹	Standard control	Profit centre, function code and account code	SAP system
Regulatory	Licence fees Consulting costs for standard control services	Standard control	Account code and in some cases costs are notified in a letter from the relevant service provider	Letter from relevant service provider
	AMI consulting costs	AMI service	Costs are notified in a letter from the relevant service provider.	Letter from relevant service provider
Other	Services fee Energy safe Victoria	Standard control	Profit centre, function code and account code. In some cases costs are notified in a letter from the relevant service provider	Letter from relevant service provider
	Overheads in relation to capital expenditure that is transferred to operating expenditure for regulatory purposes (meter installation – interval and accumulation, public lighting	Alternative control	Function code	SAP system

¹ CitiPower has allocated these costs on an avoided cost basis due to the immaterial nature of these costs.

CitiPower's Cost Allocation Method

	Nature of each cost item	Category of distribution services to which the cost item is to be <u>directly attributed</u>	Characteristics that associate the cost item uniquely with a category of distribution service	How and where records will be maintained to enable the basis of attribution to be audited
	replacement)			
CAPITAL				
Demand related	Reinforcements non-routine new customer connections and the associated customer connection charges.	Standard control	Function code	SAP system
Non-demand related	Reliability and quality maintenance Reliability and quality improvements Environmental safety and legal	Standard control	Function code	SAP system
SCADA / Network control	SCADA / Network control	Standard control	Function code	SAP system
Non-network general	IT ²	Standard control	Profit centre and function code	SAP system
	Other (i.e. general equipment, office furniture, motor vehicles ³)	Standard control	Profit centre and function code	SAP system
Metering	Advanced Metering Infrastructure Accumulation meters manually read interval meters AMI meters AMI communications Metering data services (IT) Metering data services (other)	AMI service	Function code	SAP system
Public lighting	Public lighting - replacement	Alternative control	Function code	SAP system
	Public lighting -new	Negotiated service	Function code	SAP system

Table 1: Costs that are directly attributable to a category of distribution service

The records maintained in SAP are capable of being audited. The basis of direct attribution can therefore be audited or otherwise verified by a third party.

² CitiPower has allocated these costs on an avoided cost basis due to the immaterial nature of these costs.

³ CitiPower has allocated these costs on an avoided cost basis due to the immaterial nature of these costs.

11.3 Treatment of Shared Costs

CitiPower provides the following information to address the requirements of section 2.2.1(b)(2) of the CAG in relation to the treatment of Shared Costs. Section 2.2.1(b)(2) of the CAG is detailed in Attachment 3.

Shared costs are defined in section 6 of the CAG as those cost that cannot be directly attributed to the provision of a particular category of distribution services but which are allocated between different categories of distribution services. This definition therefore covers any costs that do not fall within the CAG definition of 'directly attributable' costs, which are defined as follows: 'An item is directly attributable or directly attributed to an object such as a business segment of a DNSP, if it is wholly and exclusively associated with that segment.'

Shared costs therefore covers costs which are:

- Shared between businesses (i.e. CitiPower and Powercor Australia) and are therefore not 'wholly and exclusively associated with' a single business and cannot be directly attributable to a single business; and / or
- Shared between particular categories of distribution services, being standard control services, alternative control services and negotiated services.

Each of these issues are addressed in turn below:

Cost shared between businesses

CitiPower notes that there is a single management team in the Electricity Networks group which provides services to both CitiPower and Powercor Australia. This means that the costs associated with the Electricity Networks management team providing these services to both businesses must be allocated between them. The cost of these services are pooled and recorded under the following function code categories:

- System Operations;
- General and Administration;
- Health and Safety;
- Training;
- Motor Vehicle running costs;
- Computer Systems;
- Voice communication; and
- Salary costs.

A three factor formula is then applied to allocate the costs recorded in these function codes between CitiPower and Powercor. The three factor formula is based on an equal weighting of:

- Value of the RAB;
- Distribution revenue; and
- Customer numbers.

The SAP system records costs incurred in each shared function code and it records the cost transfers that occur between CitiPower and CitiPower which implement the costs sharing arrangements.

Costs shared between categories of distribution services

The costs incurred by CitiPower that are shared between different categories of distribution services include the following operations and maintenance expenditure costs:

- **CEO** - including CEO support services such as secretarial services (50% of expenditure);
- **Company Secretary** – company secretary, legal, internal audit, risk and property;
- **Finance** – CFO, financial accounting, management accounting, taxation, treasury, financial planning, procurement and strategy;
- **Human Resources** – human resources, learning, human resources systems, health and safety, training, industrial relations, and organisation change management;
- **Regulation** – pricing, general economic regulation, price resets;
- **IT support** – support for IT strategy, infrastructure, applications, user services and implementation;
- **Meter data services** – This relates to application maintenance and support services for the full retail competition system, the billing system and the meter data services systems;
- **Meter replacement** – This relates to the works required to replace meters and time switches on customer installations with accumulation meters and AMI meters;
- **Billing and revenue collection** – This largely relates to network billing (i.e. the statement of charges for the Network Use of System (NUoS) and excluded service charges to retailers), credit (i.e. outstanding receivables, allocation of payments and management of network receivables) and revenue protection (functions aimed at minimising the loss of network revenue);
- **Advertising and marketing** – This largely relates to media relations and employee communications;
- **Customer service** – This relates to operational and infrastructure services and facilities for all incoming calls made to the faults and emergency line, the management and administration of claims and the invoicing of Guaranteed Service Levels (GSLs);
- **Regulatory – corporate services** – This relates to the provision of network and excluded services pricing, network regulation, compliance and distribution price review;
- **Finance charges** – This relates to interest paid on external borrowings and bank fees; and
- **Tax** – This relates to the calculation of income tax expense by CitiPower using current tax rates and tax laws over the relevant period.

Table 2 below sets out the information required by section 2.2.1(b)(2) for each shared cost item. CitiPower confirms that the services listed in Table 2 below comprise an

exhaustive list of services which are shared between distribution services as at the time of preparing this CAM. None of the costs listed in Table 2 are capitalised.

The nature of each cost item	Categories of distribution services between which cost item is allocated	The nature of the allocator used to allocate the costs item	Reason for selecting that allocator – why is it the most appropriate allocator	Whether the allocator will remain the same over the regulatory control period	Details of the numeric quantity or percentage of the allocator (based on 2008 values and are recalculated annually)	How the numeric quantity or percentage has been calculated	Where the data for determining the numeric quantity or percentage has been sourced	How and where records will be maintained for auditing purposes
CEO, company secretary, finance, human resources, regulation, IT support	Standard control, Alternative control AMI pass-through services Negotiated services	Allocation based on direct expenditure split ⁴	Reflective of the costs incurred in providing different categories of distribution services	Yes	Has not yet been applied in a RIN	Based on expenditure	SAP system	SAP system
Meter data services - (FRC/MDS/CIS)	Standard control and AMI Pass-through services	Allocation based on full time equivalents (FTEs)	The majority of costs relate to labour and associated costs	Yes	37% - Standard Control 63% - AMI Pass-through	Based on FTE	SAP system	SAP system
Meter replacement	Alternative control and AMI Pass-through services	Allocation based on meter population	Reflective of the costs incurred in providing different categories of distribution services	Yes	1.8% - Alternative Control 98.2% - AMI Pass-through	Based on meter population	Customer Information Systems (CIS)	SAP system
Billing and revenue collection	Standard control, Alternative control and AMI pass-through services	Allocation based on direct expenditure split	Reflective of the costs incurred in providing different categories of distribution services	Yes	83% Standard Control 7% AMI Pass-through 10% Alternative Control	Based on expenditure	SAP system	SAP system

⁴ Direct expenditure is network capital and network maintenance expenditure, excluding large-scale meter rollout programs.

The nature of each cost item	Categories of distribution services between which cost item is allocated	The nature of the allocator used to allocate the costs item	Reason for selecting that allocator – why is it the most appropriate allocator	Whether the allocator will remain the same over the regulatory control period	Details of the numeric quantity or percentage of the allocator (based on 2008 values and are recalculated annually)	How the numeric quantity or percentage has been calculated	Where the data for determining the numeric quantity or percentage has been sourced	How and where records will be maintained for auditing purposes
Advertising and marketing	Standard control, Alternative control and AMI pass-through services	Allocation based on direct expenditure split	Reflective of the costs incurred in providing different categories of distribution services	Yes	83% Standard Control 7% AMI Pass-through 10% Alternative Control	Based on expenditure	SAP system	SAP system
Customer service	Standard control, Alternative control and AMI pass-through services	Allocation based on direct expenditure split	Reflective of the costs incurred in providing different categories of distribution services	Yes	83% Standard Control 7% AMI Pass-through 10% Alternative Control	Based on expenditure	SAP system	SAP system
Regulatory - corporate services fee	Standard control and AMI Pass-through services	Allocation based on revenue split	Reflective of the costs incurred in providing different categories of distribution services	Yes	96% - Standard Control 4% - Alternative Control	Based on revenue	SAP system	SAP system
Finance charges (including bank fees)	Standard control Alternative control and AMI Pass-through services	Regulated asset base (RAB)	Finance costs do not have a direct basis of allocation. The RAB is therefore the most appropriate basis to allocate finance costs given on the causal link between finance charges and assets.	Yes	97.7% - Standard Control 1.1% - Alternative Control 1.2% AMI Pass-through	Based on regulated assets	SAP system	SAP system

The nature of each cost item	Categories of distribution services between which cost item is allocated	The nature of the allocator used to allocate the costs item	Reason for selecting that allocator – why is it the most appropriate allocator	Whether the allocator will remain the same over the regulatory control period	Details of the numeric quantity or percentage of the allocator (based on 2008 values and are recalculated annually)	How the numeric quantity or percentage has been calculated	Where the data for determining the numeric quantity or percentage has been sourced	How and where records will be maintained for auditing purposes
Tax	Standard control Alternative control and AMI Pass-through services	Profit before tax	Tax costs do not have a direct basis of allocation. Profit is therefore the most appropriate basis to allocate tax given the causal link between profit and tax	Yes	104% - Standard Control -2% - Alternative Control -2% - AMI Pass-through	Based on segment profit before tax	SAP system	SAP system

Table 2: Costs that are shared between different categories of distribution services

This page has intentionally been left blank

11.4 Substance over legal form

CitiPower confirms that the application of this CAM will ensure that it shall attribute costs directly to, or allocate costs between categories of Distribution Services on the substance of the underlying transaction or event, rather than the legal form, in accordance with the requirements of section 2.2.2 of the CAG.

11.5 Attribution of Direct Costs

CitiPower confirms that the application of this CAM will ensure that only costs that are directly attributable to the provision of a particular category of Distribution Services will be directly attributed to those services, in accordance with the requirements of section 2.2.3 of the CAG.

11.6 Allocation of Shared Costs

CitiPower confirms that the application of this CAM will ensure that shared costs are allocated between categories of Distribution Services using an appropriate causal allocator, in accordance with the requirements of section 2.2.4 of the CAG.

11.7 Not allocate the same cost more than once

CitiPower confirms that the application of this CAM will ensure that it does not allocate the same cost more than once, in accordance with the requirements of section 2.2.5 of the CAG.

11.8 Consistency with Distribution Ring-Fencing Guidelines

CitiPower confirms that the detailed principles, policies and approach that it will use to attribute costs directly to, or allocate costs between, categories of Distribution Services are consistent with clause 6.17 of the Rules, as is required by section 2.2.6 of the CAG.

11.9 No reallocation of costs between categories of distribution services

CitiPower confirms that the application of this CAM will ensure that it does not reattribute or reallocate costs to another service during the course of a regulatory control period, as is required by section 2.2.7 of the CAG.

12. Record keeping

Section 3.2(a)(7) of the CAG requires that this CAM describe how CitiPower will maintain records of the attribution or allocation of costs to, or between, categories of Distribution Services.

CitiPower's SAP system and the information provided to CitiPower by service providers, together provide the capability to record and report all financial information based on the CAM principles and policies for both statutory and regulatory purposes, including the information required by section 5.2 of the CAG.

Outputs from this system include the standard suite of financial reports such as Trial Balances, General Ledger, Profit and Loss Statements and numerous other views.

13. Monitoring compliance

Section 3.2(a)(8) of the CAG requires that this CAM describe how CitiPower will monitor its compliance with this CAM and the CAG.

The responsibility for this CAM principally rests with CitiPower's Chief Financial Officer.

The day-to-day responsibility for the CAM, including updating, maintaining, applying, internally monitoring and reporting on its application, including ensuring compliance with the CAG, is the responsibility of the Corporate Finance Group. The Corporate Finance Group prepares the annual Regulatory Accounts together with periodic internal reporting on Regulatory outcomes.

CitiPower will demonstrate on an annual basis that the shared costs which are allocated on an avoided cost basis to distribution services other than Standard Control Services are immaterial.

Attachment 1 – CAG Requirements for Directly Attributable costs

Section 2.2.1(b)(1) of the CAG requires that

- b. *Without limiting the generality of section 2.2.1(a), a DNSP's detailed principles and policies must specify:*
 - (1) *for directly attributable costs:*
 - A. *the nature of each cost item;*
 - B. *the category of distribution services to which the cost item is to be directly attributed;*
 - C. *the characteristics of the cost item that associate it uniquely with a particular category of distribution service in order to make it a directly attributable cost; and*
 - D. *how and where records will be maintained to enable the basis of attribution to be audited or otherwise verified by a third party, including the AER.*

Attachment 2 – CAG Requirements for shared costs

Section 2.2.1(b)(2) of the CAG requires that:

- (2) *For shared costs:*
- A. *the nature of each cost item;*
 - B. *the categories of distribution services between which each cost item is to be allocated;*
 - C. *the nature of the allocator, or allocators, to be used for allocating each cost item;*
 - D. *the reasons for selecting the allocator, or allocators, for each cost item and an explanation of why it is the most appropriate available allocator, or set of allocators, for the cost item;*
 - E. *whether the numeric quantity or percentage of the allocator, or allocators, to be applied for each cost item will:*
 - i. *Remain unchanged over the regulatory control period; or*
 - ii. *Change from time to time throughout the regulatory control period.*
 - F. *if clause 2.2.1(b)(2)E(i) applies:*
 - i. *Details of the numeric quantity or percentage of the allocator, or allocators; and*
 - ii. *An explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage have been sourced.*
 - G. *if clause 2.2.1(b)(2)(E)(ii) applies, an explanation of how the DNSP intends to calculate the numeric quantity or percentage throughout the regulatory control period, including where the data for determining the changing numeric quantities or percentages are to be sourced; and*
 - H. *how and where records will be maintained to enable the allocation to be audited or otherwise verified by a third party, including the AER.*