PROCEDURE

COST ALLOCATION METHODOLOGY

JEM FIN PR 0002

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INTERNAL

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DOCUMENT HISTORY

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OWNING FUNCTIONAL GROUP & DEPARTMENT / TEAM

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1 INTRODUCTION

1.1 PURPOSE

Jemena is the branded name of a group of businesses owned and operated by SGSP (Australia) Assets Pty Ltd (**SGSPAA**). Jemena Asset Management Pty Ltd (**JAM**) is a subsidiary within the SGSPAA group of businesses (**Jemena Group**) that provides financial services to and collecting costs on behalf of the Jemena Group entities.

The purpose of this Jemena Group Cost Allocation Methodology (**CAM**) is to outline the method for attributing costs of services provided by JAM to the Jemena portfolio of asset businesses (**Assets**) listed in Appendix 7.1. Costs of services incurred by the Assets are both direct and indirect in nature and can be applied to capital, operating and maintenance type activities.

The CAM is established in line with the SGSPAA Group's financial management policy, procedures, manual, frameworks and guidelines such as the cost allocation principles adopted in Capital Projects and Asset Recording Procedure (JAA FIN PR 0019), Property, Plant and Equipment Guidance (JAA FIN GU 0012), Intangible Assets Guidance (JAA FIN GU 0013) and Jemena Investment Management (**IM**) structure[1].

1.2 SCOPE

The scope of this document covers the methodology of cost attribution of services provided by JAM to the Assets.

This document excludes the allocation of costs within Assets to distribution or other types of services.

1.3 RESPONSIBILITIES

The responsibility for the application of the CAM rests with the General Manager, Commercial Finance who will:

- conduct periodic reviews of the CAM; that includes, but not limited to, changes to organisation structure, operating model, significant accounting policies and regulations where applicable,
- liaise with the Chief Financial Officer (**CFO**), Executive General Managers of the Assets, Commercial Finance Managers and their staffs where issues are raised, and
- act as the reference point for all queries regarding the CAM.

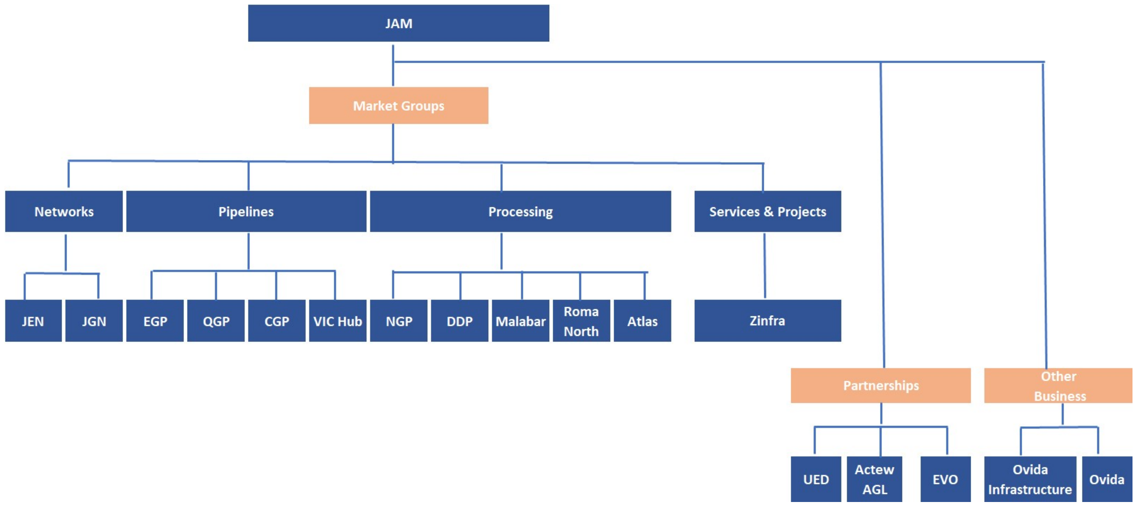
In response to organisational change, process improvements, regulatory, legal and accounting standards changes, this CAM will be refined to ensure it continually meets the underlying principles and that cost drivers used are relevant.

Revisions to this CAM must be approved by General Manager, Commercial Finance.

[1] These Procedure/Guidance documents are available on the Group Intranet for further reference.

2 ASSET STRUCTURE

Below are the Assets/Market Groups within the Jemena Group that receives costs from JAM. The allocation of costs is based on the CAM.



Market Groups were developed within JAM, segmenting similar asset portfolios to better understand and target customers with tailored marketing strategies and for cost efficiencies. Partnerships represents the operational structure of the Group.

Further information about these Assets relevant to this CAM is outlined in Appendix 7.1.

3 OPERATING STRUCTURE

The Jemena Group's current operating structure was developed to align with key market strategies to improve long term profitability, establish more competitive service offerings and reduce cost and complexity.

The operating structure therefore includes market facing groups per Section 2 above, supported by corporate support services.

The market groups include:

- Networks,
- Pipelines,
- Processing, and
- Services & Projects (Zinfra) – Services Business

The corporate support services are centralised Group functions supporting the Market Groups, which include:

- Digital
- Finance
- People, Safety and Governance (**PSG**),
- Corporate Strategy
- Procurement, Property & Fleet (**PPF**), and
- Managing Director (**MD**)

Details of services delivered by these functional groups and their functions are outlined in section 3.1 below.

3.1 CORPORATE SUPPORT SERVICES

Below is a description of Jemena Group corporate support services. The costs for these services are recorded at JAM level and then allocated to the various market groups within the Assets:

Costs	Function
Digital	Provides range of IT solutions and services, including technology to protect confidential data and privacy.
Finance	Provide financial reporting and assurance activities such as accounting, group taxation, treasury, investment analysis, investor relations, insurance etc.
PSG	Provide solutions and services for people, communications, health and safety, legal, environment, corporate governance and compliance, internal audit and risk etc.
Corporate Strategy	Provide direction and guidance on Group's strategy including short-term and long-term goals and business development as well as manages performance monitoring and evaluation
PPF	Provide solutions and services relating to strategic procurement management, fleet and plant management and manages the property portfolio for the Group
MD	Responsible for overseeing the overall operations and strategic direction of the Group, setting goals and objectives, building and maintaining relationships with stakeholders. *MD costs are currently not allocated to the Assets.*

4 COST ALLOCATION APPROACH

The costs captured at JAM level and assignment of costs from JAM to the appropriate Assets is governed by this CAM.

The Jemena Group utilises an Enterprise Resource Planning (**ERP**) system to capture, control and report its costs at the general ledger account level through the use of cost centres, profit centres and projects (that is, summary level cost collectors).

JAM does not add any margins on the costs it transfers to Assets within the Jemena Group.

4.1 COST ALLOCATION BY COST TYPE

There are two distinct methods where costs are assigned to Assets within the Jemena Group:

1. Directly attributable costs, and
2. Allocation of indirect costs

Most of the costs that JAM incur are directly attributable to individual Assets. Where data cannot be directly attributed, an allocation of costs takes place using an appropriate cost driver.

4.1.1 DIRECTLY ATTRIBUTABLE COSTS

Costs that are directly attributable to specific Assets are directly recorded against that asset using ERP functionality.

Costs that are captured under projects are assigned to Assets using activity cost collectors in the ERP system known as Work Breakdown Structure (**WBS**). Each WBS is referenced to a specific project code that corresponds to an activity type. The activity type identifies the nature of the works carried out - the activity types include capital, operating or maintenance and is also used to identify the type of service being provided.

Costs that are captured under projects are further categorised under the following cost types:

Cost Type	Cost Driver
Labour	Labour costs are allocated using time writing through the ERP system Cross Application Timesheets (**CATS**) module to the relevant WBS. The labour rate used as part of the cost attribution represents an employee's labour rate plus on-costs and is split between normal and overtime hours. A standard labour rate is calculated based on labour cost bands driven by functional areas and skillsets.
Subcontractors	External contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. These costs would also include materials and other expenses relating to the performance of the task contracted. Subcontractor costs are receipted against the outstanding purchase order and directly assigned to a relevant WBS under an activity.
Materials	Material costs include stock items distributed through warehousing and materials purchased directly from an external party via purchase order processing system. Material costs are directly assigned to a relevant WBS under an activity.
Fleet and Major Equipment	Assigned based on a standard fleet and major equipment rate against the cost centres which own the vehicles. All time writing hours against these cost centres are also assigned an additional hourly amount on a unique cost element to reflect fleet allocations. The cost element reflect whether the allocation is capex or opex and maintenance related.
Other direct costs	These are costs incurred directly for the asset. These costs include costs such as government levies, marketing, unaccounted gas (**UAG**), grid fees, license fees, permits and other expenses directly relevant to the project.

4.1.2 INDIRECT COSTS

Indirect costs are allocated using a set of key principles, these are outlined below:

- Identify and allocate direct costs attributable to Assets.
- The remaining indirect cost allocations follow the direct cost allocations percentages
- Consistency of approach across Assets
- Comply with external requirements, including Regulatory (Ring Fencing and Gas market Reforms) and accounting standards.

These will be reviewed annually as part of the planning process, or earlier if there is a material change in operations.

Indirect costs are those costs that are not directly attributed to any specific Asset. These costs are likely to relate to services provided to multiple Assets and are therefore allocated using the most significant driver for utilisation of resources or services.

Cost Type	Cost Driver
Property Costs (non-corporate)	Total costs include rental, rates, security and other operational cost, allocated to market that utilises the property. Where a property is used by multiple Markets the allocation is based on the floor area utilised by each of the market teams.
Support Costs	Support costs that are not directly attributable to an Asset is allocated using specific drivers and/or FTE Surveys. Where support costs are considered as attributable to capital projects, these costs are recovered using costing sheets (refer to Support Costs Capitalisation, where the methodology is discussed in section 4.1.2.1) Support costs are allocated to Assets using: (i) Specific Drivers a) IT specific driver IT services are provided by Jemena IT using a mix of shared services, enterprise platforms and software applications and asset-specific platforms and software. The service costs are assigned based on a composite IT driver, that is derived from drivers across the following categories: • IT operational costs - based on number of servers, number of devices held and site costs. • Service management costs – proportional based on the number of applications and desktops/laptops/tablets and compute across platforms. • Business applications and infrastructure – costs allocated based on the number of users. • Enterprise information and communication technology costs – proportional based on number of applications. • Data and network services costs – where not directly allocated, proportional allocation is based on number of desktops/laptops. • Digital Security –a combination of applications and users. Capital costs are assigned on a case-by-case basis using benefits derived from projects for individual Assets. If the solutions delivered through a particular project, the benefits one or more Assets the costs are assigned to those Assets based on a predetermined enterprise allocation split. b) Insurance specific driver Insurance costs are predominantly insurance premiums of policies that apply to SGSPAA and are directly attributed to the portfolio of Assets. These are assigned to portfolio Assets based on weightings applicable to each insurance policy (on policy renewal) relating to: • Risk exposure: Proportion of premium based on the risk exposure of each portfolio asset.

Cost Type	Cost Driver
	• Claims history: Proportion of premium based on the historical claims experience or number of actual losses for each portfolio asset, which is a direct reflection of a portfolio asset's ability to manage risk; and • Risk factor: The proportion of premium based on areas such as risk type, location and also risk management initiatives and compliance. c) Corporate property-specific driver Corporate property costs are allocated to Assets based on the occupancy of employees at each location, using Assessment Cycles (**AC**) recorded in the ERP System. (ii) Other Drivers a) FTE survey Support costs, other than those using specific drivers stated above, are assigned to Assets using periodic FTE Survey.
Other Indirect Costs	Unallocated residual costs from cost centres are allocated to Assets based on the drivers applicable to those cost centres. These costs include: a) Labour costs – staff salaries, temporary staff costs and directors' fees; b) Other staff costs – welfare costs, training and development costs; c) Administration costs – office consumables, subscriptions; telecommunication costs, recruitment costs and advertising; d) Consultancy and Professional costs; e) Professional services – legal fees and audit fees; and f) Travel and entertainment expenses.

4.1.2.1 SUPPORT COST CAPITALISATION

The support costs are incurred as part of day-to-day operating activities and are generally categorised as opex in principle. But if those costs are incurred to enhance or improve the future economic benefits of an asset, those costs can be capitalised to the asset as overheads incurred.

Decisions to either capitalise or expense costs incurred are guided by applying accounting standards or legal requirements. It is noted that the cost of an item should only be recognised as an asset when it is probable that future economic benefits associated with the item will flow to the entity and the costs of the item can be measured reliably.

Support costs may be capitalised if supportable by the Australian Accounting Standard - Property, Plant and Equipment (AASB 116) and any other relevant accounting standards and guidelines. The Jemena Group business rules governing the capitalisation of such support costs are outlined in Appendix 7.2.

Support Cost	Methodology
Asset Management	Asset Management costs are those that relate to support network activities. Capitalisation of these costs are determined as a percentage of total direct costs associated with activities.
Corporate	Digital, PSG, Finance, Corporate Strategy, PPF and MD costs are not capitalised.

4.2 COST ALLOCATION BY FUNCTION GROUP

Cost allocation methods applicable to each corporate functional group is per below:

4.2.1 CORPORATE SERVICES

Department	Directly attributable costs	Indirect costs	Capitalised support costs
Digital	Y	Y	N
Finance	Y	Y	N
PSG	Y	Y	N
MD	N	N	N

5 TERMS & DEFINITIONS

AC	Assessment Cycles
ActewAGL	ActewAGL distribution partnership
AM	Asset Management
CAM	Cost Allocation Methodology
Capex	Capital Expenditure
CATS	Cross Application Timesheets
CFO	Group Chief Financial Officer
CGP	Jemena Colongra Pty Ltd
DAMS	Distribution and Asset Management Service (Evo Energy)
DDP	Darling Downs Pipelines
EGP	Eastern Gas Pipeline
FTE	Full Time Equivalent
GMR	Gas Market Reforms
HSEQ	Health, Safety, Environment and Quality
IM	Jemena Investment Management
IT	Information Technology
JAM	Jemena Asset Management Pty Ltd
Jemena Group	SGSPAA Group excluding Zinfra Group
JEN	Jemena Electricity Networks (Vic) Ltd
JGN	Jemena Gas Networks (NSW) Ltd
MD	Managing Director
NGP	Northern Gas Pipeline
Opex	Operating Expenditure
PPF	Procurement, Property & Fleet
PSG	People, Safety & Governance
QGP	Queensland Gas Pipeline
RFG	Ring Fencing Guideline
SAP	SAP enterprise resource planning and data management software
SGSPAA	SGSP (Australia) Assets Pty Ltd
SGSPAA Group	SGSPAA and its subsidiaries and associates
UAG	Unaccounted Gas
VicHub	Jemena VicHub Pipeline Pty Ltd
WBS	Work Breakdown Structure
Zinfra Group	Zinfra Pty Ltd and its subsidiaries

6 REFERENCES

6.1 INTERNAL

The following documents are referenced in this document:

- Capital Projects and Asset Recording Procedure (JAA FIN PR 0019).

- Property, Plant and Equipment Guidance (JAA FIN GU 0012).
- Intangible Assets Guidance (JAA FIN GU 0013).
- Jemena Organisation Framework (JEM HR GU 0001).
- Jemena Investment Management (IM) structure.
- Jemena IM And Activity Code Register.

6.2 EXTERNAL

- Australian Accounting Standard - Property, Plant and Equipment (AASB 116).

7 APPENDICES

7.1 PORTFOLIO OF ASSETS APPLICABLE TO JEMENA GROUP CAM

Below is the list of Assets to whom services are provided by function groups in JAM. These Assets provide both regulated and unregulated services.

Asset Owner	Services Provided by JAM
JGN	JGN is the principal gas distribution business in NSW responsible for managing the JGN gas distribution network. The network provides gas to over 1.4 million customers across Sydney, Newcastle, Wollongong and over 20 country centres via approximately 25,000km of distribution system.
JEN	JEN distributes electricity to over 350,000 customer sites via approximately 6,300km of distribution system and over 950 square kilometres of north-west greater Melbourne, is responsible for managing the JEN electricity distribution network.
EGP	Is responsible for management, maintenance and construction activities on the Eastern Gas Pipeline (EGP). EGP is a key supply artery between the Gippsland Basin in Victoria and NSW.
QGP	Is responsible for management, maintenance and construction activities on the Queensland Gas Pipeline (QGP). QGP links the Wallumbilla gas hub in south central Queensland to large industrial gas users in Gladstone and Rockhampton.
CGP	Is responsible for managing the Jemena Colongra Pty Ltd (Colongra) gas facility. Colongra gas transmission and storage pipeline was designed and built by Jemena to deliver gas to Delta Electricity’s 667MW gas turbine facility near the existing Munmorah power station on the Central Coast of NSW.
VicHub	Is responsible for management, maintenance and construction activities on the Jemena VicHub Pipeline Pty Ltd (VicHub) pipeline. VicHub enables gas to flow bi-directionally between the Eastern and Tasmanian Gas Pipelines and the Victorian gas transmission system.
NGP	Is responsible for management, maintenance and construction activities.

Asset Owner	Services Provided by JAM
	NGP is a 623km gas pipeline and two large compressor stations to transport gas from gas fields located near Tennant Creek in the Northern Territory (NT), through to Mount Isa in north-west Queensland (QLD).
DDP	Is responsible for management, maintenance and construction activities. DDP is three interconnected gas transmission pipelines in the Darling Downs region in South-East Queensland that operate as a single pipeline network. The DDP network also includes the Atlas Gas Processing Facility and pipeline connecting Surat Basin in QLD to the DDP.
Malabar	Organic waste that gets flushed into Sydney's sewage system is repurposed into renewable gas that can be used in the same way as natural gas. This gas is then injected into our NSW gas distribution network. The facility's initial capacity is 95 terajoules of renewable gas per annum.
Roma North	Processes and delivers natural gas from the Surat Basin into the GLNG Comet Ridge to Wallumbilla Pipeline, via 5-kilometre pipeline.
Atlas	Processing and delivers natural gas from Senex Energy's atlas block in the Surat Basin to Jemena's Darling Downs Pipeline. The Atlas pipeline is 61 kilometres in length.
Zinfra	Deliver a comprehensive range of engineering, project management, construction, operations and maintenance services Australia wide, do not hold any Assets.
UED Investment	Jemena Ltd manages the investment in United Energy on behalf of SGSPAA. Jemena Ltd.'s holding company, SGSPAA owns a 34% interest in United Energy, which owns the electricity distribution network servicing the south-eastern suburbs of Melbourne and the Mornington Peninsula. Its licence area is largely urban in nature.
ActewAGL Investment	Jemena Networks ACT (JNACT) manages the investment in ActewAGL. JNACT has a 50% interest in ActewAGL, the remaining 50% of the partnership is owned by ACTEW Distribution Ltd, a subsidiary of ACTEW Corporation Ltd. ACTEW Corporation Ltd is a government owned company with assets and investments in water, wastewater, electricity, gas and telecommunications.
Evo	Is responsible for managing the EvoEnergy gas network. The services are provided under a Distribution and Asset Management Service (**DAMS**) agreement. The ActewAGL distribution partnership (refer ownership details in 'ActewAGL Investment' below) owns, plans, develops, constructs, operates and maintains the electricity network in the Australian Capital Territory (**ACT**) and the gas networks in the ACT and southeast NSW and manages all water and wastewater operations in the ACT.
Ovida	Ovida was established to introduce new and innovative products and services that give Australian energy consumers easier access to the benefits of distributed energy and emerging technologies. Ovida's pursuit of behind-the-meter opportunities includes contestable electricity services and complies with the Australian Energy Regulator's Ring-Fencing Guideline (**RFG**).

7.2 JEMENA GROUP BUSINESS RULES GOVERNING THE CAPITALISATION OF SUPPORT COSTS

What can be capitalised:

- Costs directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended.
- An appropriate proportion of any directly attributable support costs.
- Costs of testing whether an asset is functioning properly.
- Professional fees (architects, engineers etc).
- Costs arising from the development phase of a project (provided the other criteria* are met). Development is defined as the application of research findings or other knowledge to a plan or design to produce new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
- Support costs that are specifically attributable to a capital project.
- Support costs that cannot be specifically attributable to a capital project but relate to capital works generally, provided they are capable of being reliably measured and allocated on a reasonable basis.
- Rental and other running costs for an office set up specifically to support the construction of an asset.
- Costs incurred in relation to project management, where the project is of a capital nature.
- Costs attributable to staff working on specific projects, where the projects are of a capital nature.

What cannot be capitalised:

- Repairs and maintenance costs (day-to-day servicing costs including labour, consumables and small parts).
- Costs of introducing, advertising or promoting a new product or service.
- Costs of conducting business in a new location or with a new class of customers, including staff training costs.
- Corporate support costs.
- Administrative and general overhead costs.
- Costs incurred in relocating or reorganising an entity’s operations.
- Overhead expenditure that cannot be directly attributable to preparing an asset for use (selling and administrative expenses, etc.).
- Costs arising from the research phase of a project. In the research phase of a project, an entity cannot demonstrate that an asset exists that will generate probable future economic benefits. Research is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

**Other Criteria*

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate al of the following:

- The technical feasibility of completing the intangible asset so that if will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.

- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.