



ActewAGL Distribution (Evoenergy) Cost Allocation Method

AER Decision

October 2018

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Shortened forms

Table text heading

AER	Australian Energy Regulator
CAM	Cost Allocation Method
Distributor, DNSP	Distribution Network Service Provider
NEL	National Electricity (Northern Territory) Law
NEM	National Electricity Market
Rules, NER	National Electricity Rules (Northern Territory)
guidelines	Distribution Cost Allocation Guidelines

1 Introduction

1.1 Summary

On 18 September 2018 ActewAGL Distribution¹ (on behalf of Evoenergy)² submitted a Cost Allocation Method (CAM) to the AER for approval — see Appendix A to this paper. ActewAGL Distribution, through Evoenergy, provides electricity distribution services in the Australian Capital Territory (ACT). A CAM is used to separately account for the costs of providing electricity distribution services, including from other services the distributor might provide.

We have determined ActewAGL Distribution's proposed CAM:

- accords with the requirements of the National Electricity (Victoria) Law (NEL) and National Electricity Rules (the rules)
- gives effect to and is consistent with our Distribution Cost Allocation Guidelines (our guidelines).

Accordingly, we have approved ActewAGL Distribution's proposed CAM under clause 6.15.4(c) of the rules.

1.2 Background

The AER is responsible for regulating revenues of the electricity distribution businesses in the ACT in accordance with the NEL and the rules. Chapter 6 of the rules provides further details on the economic regulation of electricity distribution services in the ACT.

Cost allocation concerns attributing a regulated business' costs, or allocating shared costs, between distribution service categories and non-regulated business sections. The different services provided by distributors are defined in the NEL and the rules. They are:

- direct control services, comprising:
 - standard control services
 - alternative control services
- negotiated distribution services
- unclassified, or unregulated, services.

In our distribution determinations we classify distributor services to the above categories based on factors specified by the rules. The prices distributors charge for the different categories of distribution services depend on the costs incurred in providing those services. It is therefore important that cost allocation between service classifications accurately and fairly represents costs incurred in providing those services. We rely upon historical and

¹ ActewAGL Distribution has no relationship to the retail electricity business named ActewAGL. Rather, ActewAGL Distribution is a partnership between Jemena Networks and Icon Distribution.

² ActewAGL Distribution is the broader corporate entity of which Evoenergy, a distinct legal entity, is one part. Evoenergy is the separately branded provider of electricity distribution direct control services.

forecast costs allocated in accordance with an approved CAM to determine prices charged, or revenues raised, by distributors such as ActewAGL Distribution.

Distribution regulatory proposals, or the regulatory arrangements proposed by distributors to us for a particular regulatory control period, must comply with an approved CAM. The CAM subject to this decision paper will be used by ActewAGL Distribution to develop its distribution regulatory proposals. ActewAGL Distribution will also use its CAM to report to us annually for its regulated distribution business.

Following our approval, ActewAGL Distribution's approved CAM will remain relevant to its regulatory accounts, reporting and regulatory proposals until we approve a further CAM variation.

2 Rule requirements and assessment

2.1 The rule requirements

For distributors:

- Clause 6.15.4(a) of the rules requires a distributor to submit to us for approval a document setting out its proposed CAM.
- Clause 6.15.4(b) requires that a CAM give effect to and be consistent with our distribution guidelines.
- Clause 6.15.4(c) provides for us to approve or refuse to approve a CAM submitted under paragraph (a).
- Clause 6.15.4(f) provides for a distributor to amend its CAM from time to time, subject to our approval.

2.2 Assessment process

ActewAGL Distribution informally submitted a pre-draft copy of its proposed CAM on 13 April 2018. Amendments to the current approved CAM were driven by our electricity Distribution Ring-Fencing Guideline. Specifically, the CAM amendments:

- reflect ring-fencing requirements
- explicitly account for gas networks and a CNG Refuelling Facility
- reflect any changes to ActewAGL Distribution's organisational structure arising from creation of separate legal entities.

ActewAGL Distribution did not make material changes to its current cost allocation approach.

Having made minor changes to the draft CAM in response to our feedback, ActewAGL Distribution formally submitted the proposed CAM for approval.

We have assessed the CAM against the requirements of the rules and our guidelines. Details of our assessment are provided below.

2.3 ActewAGL Distribution's CAM proposal and structure

ActewAGL Distribution sought AER approval of the attached proposed CAM under clause 6.15.4 (c) and (d) of the rules.

The proposed CAM provides details on corporate structure, attribution of direct costs, allocation of indirect costs, cost recording and record keeping systems and compliance policies.

Particularly notable is the CAM's description of ActewAGL Distribution's corporate and operational structures.

It's corporate, or ownership, structure is illustrated in Figure 1 below.

Figure 1 ActewAGL Distribution’s corporate structure³

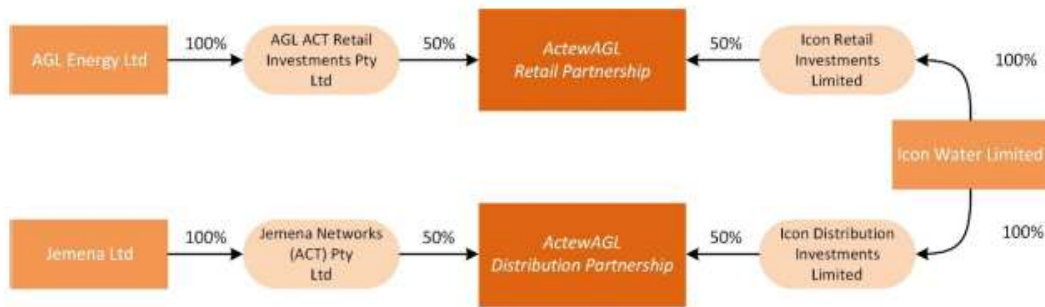


Figure 1 describes ActewAGL Distribution as a partnership between Jemena Networks and Icon Distribution. While ActewAGL Distribution shares a name with the ActewAGL retail business, the common partner across the two businesses is Icon Water.

In addition to its ownership structure, ActewAGL Distribution’s proposed CAM shows its operational structure in the context of its ring-fencing obligations, illustrated in Figure 2 below.

Figure 2 ActewAGL Distribution operational structure⁴

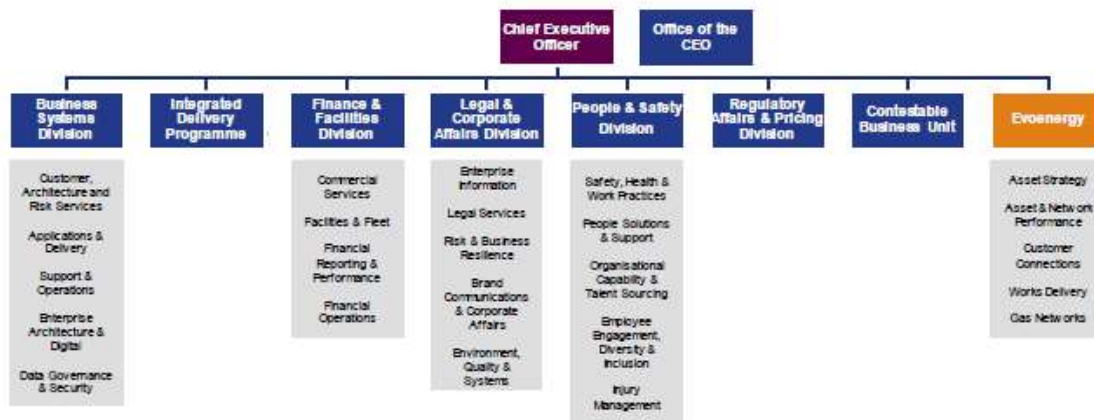


Figure 2 shows Evoenergy as an operational element within ActewAGL Distribution’s broader structure. Compliance with its ring-fencing obligations is demonstrated by the delineation between Evoenergy which provides direct control services and the Contestable Business Unit which provides other services.

The proposed CAM sets out which costs are directly attributed by ActewAGL Distribution and which are allocated.

³ ActewAGL Distribution, Cost Allocation Method, September 2018, p. 12.

⁴ ActewAGL Distribution, Cost Allocation Method, September 2018, p. 17.

3 Consistency with our cost allocation guidelines

This section sets out our assessment of ActewAGL's proposed CAM against the requirements of our guidelines.

3.1 ActewAGL Distribution CAM assessment

The format and content of ActewAGL Distribution's CAM are regulated by clause 3.2(a) of our guidelines. Table 1 compares ActewAGL Distribution's proposed CAM against the requirements of clause 3.2(a).

Table 1 CAM assessment table

General obligations

Rules	CAG	Requirements	Addressed
6.15.4(a)	1.5, 3.1(a)	DNSP must develop a proposed CAM for submission to the AER	Compliant
6.15.4(b)	1.5, 3.1(b)	DNSP's proposed CAM must give effect to and be consistent with the CAG	Compliant
	5.4	DNSP must maintain current copy of approved CAM on its website	Compliant

Contents of Cost Allocation Method

CAG	Requirements	Addressed
3.2(a)(1)	Version number	Page 2
3.2(a)(2)	DNSP's commitment to history and date of issue	Page 2
3.2(a)(3)	Statement of nature, scope and purpose of document and way it is to be used	Section 2.1
3.2(a)(3)A	Accountabilities for implementation	Section 5.1
3.2(a)(3)B	Responsibilities for updating, maintaining and applying document and for internally monitoring and reporting its application	Section 5.1
3.2(a)(4)	Description of corporate and operational structure	Sections 3 and 4

CAG	Requirements	Addressed
3.2(a)(5)	Specification of service categories and types of persons to whom services provided	Section 6
3.2(a)(6)	Principles and policies for attributing costs to, and allocating costs between, categories of distribution services in accordance with clause 2.2 of CAG	Sections 8, 9 and 10
3.2(a)(7)	Description of how will maintain records of attribution and allocation	Section 11
3.2(a)(8)	Description of how will monitor compliance with CAM and Guidelines	Section 12
3.2(a)(9)	Commencement date	Section 13

Cost allocation principles and policies

Rules	RFG	CAG	Requirements	Addressed
6.15.2(1)	3.2.2(a)	2.2.1(a)	<p>Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable:</p> <ul style="list-style-type: none"> AER to replicate reported outcomes DNSP to demonstrate that it is meeting requirements 	Compliant
		2.2.1(b)(1)	Include specified information on directly attributable costs to enable AER to replicate reported outcomes	Compliant
		2.2.1(b)(2)	Include specified information on shared costs to enable AER to replicate reported outcomes	Compliant
6.15.2(2)		2.2.2	Attribute costs directly to, or allocated costs between, categories of distribution services based on substance of underlying transaction or event not legal form	Compliant
6.15.2(3)(i)		2.2.3	Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service	Compliant

Rules	RFG	CAG	Requirements	Addressed
6.15.2(3)(ii)		2.2.4	<p>Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that:</p> <ul style="list-style-type: none"> • Shared cost is immaterial • Causal relationship cannot be established without undue cost or effort <p>in which case may use non-causal allocator in specified circumstances</p>	Compliant
6.15.2(4)			Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator	Compliant
6.15.2(5)		2.2.5	Do not allocate the same cost more than once	Compliant
6.15.2(6)		2.2.6	Detailed principles, policies and approach used to attribute costs directly to, or allocated costs between, categories of distribution services must be consistent with the Distribution Ring Fencing Guidelines	Compliant
6.15.2(7)		2.2.7	Costs that have been attributed or allocated costs to distribution services must not be reattributed or reallocated to another service during the regulatory control period	Compliant

4 Decisions

We consider the CAM proposed by ActewAGL Distribution gives effect to and is consistent with our guidelines and the rules. We therefore approve, under clause 6.15.4(c) of the rules, ActewAGL Distribution's (Evoenergy) proposed CAM.

Appendix A: ActewAGL Distribution CAM

ActewAGL Distribution CAM is attached as a separate document. Digital copies are available at www.aer.gov.au.