



SA Power Networks

Cost allocation method



December 2017

Enquiries concerning the currency of this Cost Allocation Method should be addressed to:

SA Power Networks

GPO Box 77

Adelaide SA 5001

Ph: (08) 8404 5667

Fax:

Email: customer.relations@sapowernetworks.com.au

AMENDMENT RECORD

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1. Introduction

Corporate Profile

SA Power Networks is 51 percent owned by Cheung Kong Infrastructure Holdings Limited and Power Assets Holdings Limited, which form part of the Cheung Kong Group of companies. The remaining 49 percent is owned by Spark Infrastructure, which began trading on the Australian Stock Exchange in December 2005.

SA Power Networks operates and maintains the only significant electricity distribution network in South Australia, supplying all of the major population centres, and serves around 875,000 residential, commercial and industrial customers. It constructs, operates and maintains the distribution network from the point of connection with the transmission network (operated by ElectraNet) up to the customer's meter.

SA Power Networks employs around 2,000 people, supporting a network comprising 408 zone substations and about 89,000 kilometres of powerlines.

SA Power Networks' key regulated distribution roles include:

- maintaining the safety and reliability of the network;
- meeting the network capacity needs of our customers;
- extending and upgrading the network;
- connecting customers to the network;
- maintaining the public lighting system; and
- acting as the meter data collector (meter reader) and data provider to retailers for regulated meters.

SA Power Networks also provides non-distribution construction, maintenance and asset management services in the competitive market through its affiliated entities, Enerven Energy Infrastructure Pty Ltd and Enerven Energy Solutions Pty Ltd.

2. Nature, Scope and Purpose

The purpose of this document is to set out the proposed Cost Allocation Method adopted in SA Power Networks' Regulatory reporting. This is pursuant to clause 6.15.4 of the National Electricity Rules (**NER**), which requires that¹:

- a) Each *Distribution Network Service Provider (DNSP)* must submit to the Australian Energy Regulator (**AER**) for its approval, a document setting out its proposed *Cost Allocation Method*.
- b) The *Cost Allocation Method* proposed by a *DNSP* must give effect to and be consistent with the *Cost Allocation Guidelines (CAG)*.

SA Power Networks has a duty to comply with the approved Cost Allocation Method under clause 6.15 of the NER. Clause 6.15.1 of the NER states:

“A *DNSP* must comply with the *Cost Allocation Method* that has been approved in respect of that provider from time to time by the *AER* under this rule 6.15.”

¹ Note: terms in italics are separately defined in the NER.

SA Power Networks will apply its *Cost Allocation Method* in preparing:

- (1) A shared asset cost reduction in accordance with clause 6.4.4(c)(5) of the NER;
- (2) Forecast operating expenditure to be submitted to the AER in accordance with clause 6.5.6(b)(2) of the NER;
- (3) Forecast capital expenditure to be submitted to the AER in accordance with clause 6.5.7(b)(2) of the NER;
- (4) Prices for a *negotiated distributed service* determined in accordance with clause 6.7.1(1) of the NER;
- (5) Actual or estimated capital expenditure for the purposes of increasing the value of its regulatory asset base under NER schedule S6.2.1(f); and
- (6) information required under any relevant *regulatory information instrument*.

As required by clause 2.1 of the AER's CAG, each DNSP is responsible for developing the detailed principles and policies for attributing costs to, or allocating costs within, the categories of *distribution services* that it provides. These detailed principles and policies must be included in the proposed *Cost Allocation Method* that SA Power Networks submits to the AER for approval.

The approved *Cost Allocation Method* is to be posted on the SA Power Networks' website as required by clause 6.15.4(h) of the NER.

SA Power Networks' *Cost Allocation Method* has been prepared in accordance with the *Cost Allocation Principles* contained in section 6.15.2 of the NER. Specifically:

- the principles and policies used by SA Power Networks to allocate costs between the different categories of *distribution services* are contained in this document (NER – 6.15.2(1));
- allocation of costs has been determined according to the substance of a transaction or event rather than its legal form (NER – 6.15.2(2));
- costs allocated to a particular category of *distribution services* are either:
 - costs which are directly attributable to the provision of those services (NER – 6.15.2(3)(i));
 - or
 - costs not directly attributable are allocated using an appropriate allocator (NER – 6.15.2(3)(ii));
- the reasons for using the method of the chosen allocator is clearly described in this document (NER – 6.15.2(4));
- the same costs are not allocated more than once (NER – 6.15.2(5));
- the principles, policies and approach used to allocate costs are consistent with the *Distribution Ring-Fencing Guidelines* (NER – 6.15.2(6)); and
- costs which have been allocated to a particular service will not be reallocated to another service during the course of a *regulatory control period* (NER – 6.15.2(7)).

The records associated with SA Power Networks' attribution or allocation of costs can be audited or verified by a third party (CAG – 3.2(a)(7)).

3. Responsibility for the Cost Allocation Method

SA Power Networks' Cost Allocation Method is described in this document. We consider that it complies with the requirements of the NER and the Cost Allocation Guidelines, and all regulatory financial information is prepared in a manner that is consistent with it.

Overall responsibility for the Cost Allocation Method is with the Chief Financial Officer for SA Power Networks. Responsibility for updating, maintaining and applying the Cost Allocation Method will be undertaken by the Regulatory Accountant. The Regulatory Accountant prepares the annual Regulatory financial accounts and associated Annual Regulatory Information Notice (**RIN**), and coordinates the financial reporting for the Economic Benchmarking and Category Analysis RINs, together with periodic internal reporting on regulatory performance. The Regulatory Accountant therefore is best placed both to report on, and ensure compliance with the Cost Allocation Method throughout the organisation. The Regulatory Accountant will work in close collaboration with other groups in SA Power Networks to achieve this.

4. Organisational Structure

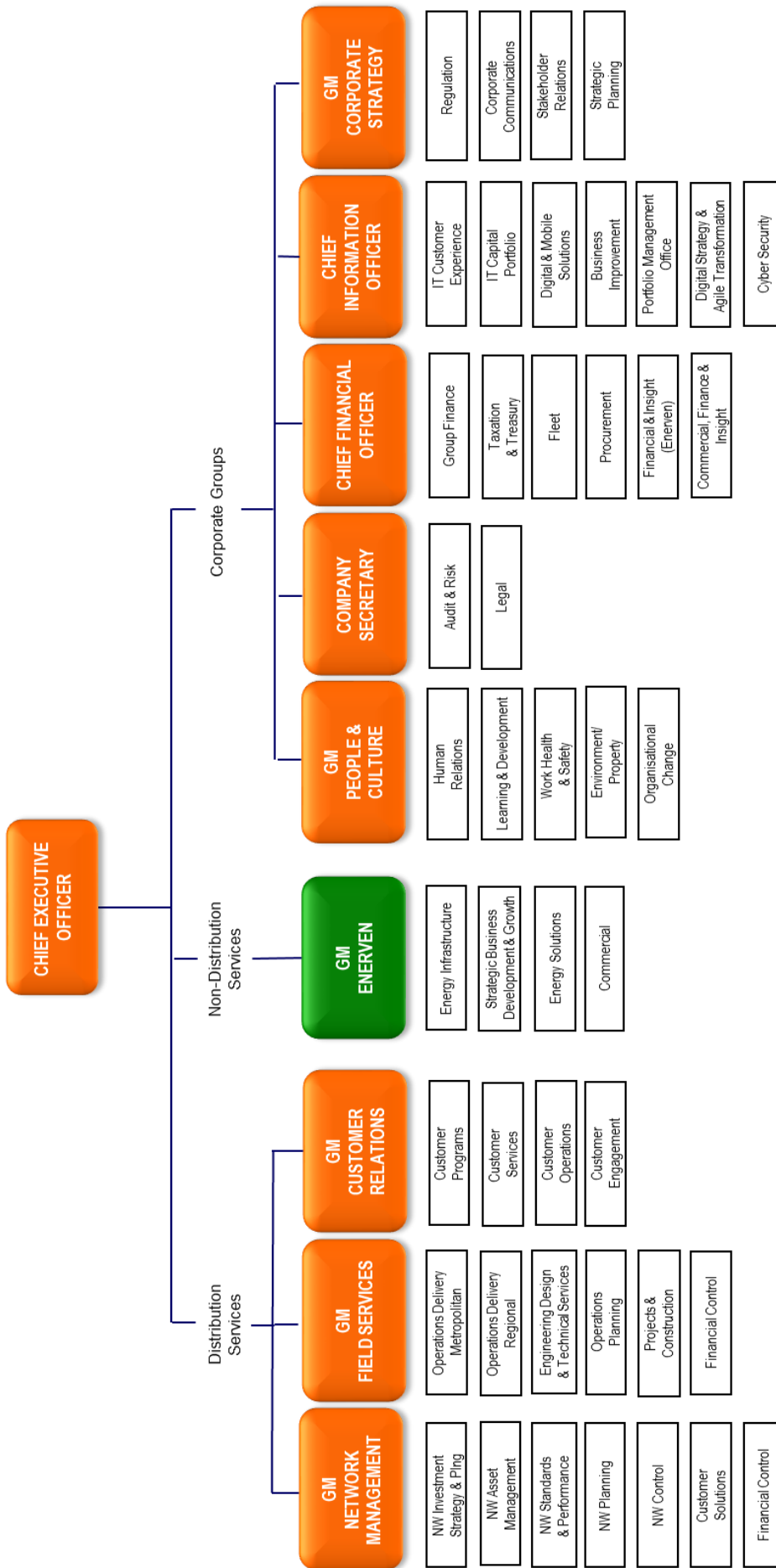
SA Power Networks' business is structured to align with our key business strategies. These strategies aim to meet the requirements of our customers and stakeholders and to position us to take advantage of new opportunities.

Operational groups are split along the lines of those providing distribution (regulated) services and those providing non-distribution (unregulated) services. With the introduction of the Ring-fencing Guideline, non-distribution services will be delivered by SA Power Networks' legally separated affiliates, Enerven Energy Infrastructure Pty Ltd and Enerven Energy Solutions Pty Ltd (collectively referred to as Enerven). Distribution services are further split structurally between asset management, customer, and field construction and maintenance functions.

Corporate groups provide services to support the operational groups for both SA Power Networks and Enerven, and to meet the needs of key stakeholders.

These operations are further overseen by the Chairman and Board of Directors. A diagrammatic representation of the SA Power Networks Partnership organisational structure, with functional responsibility is contained in figure 1 on the following page.

Figure 1: SA Power Networks' Organisation Structure at 30 November 2017



5. Distribution Services

Clause 6.2.1 (a) of the NER stipulates:

The AER may classify a *distribution service* to be provided by a *Distribution Network Service Provider* as:

- (1) a *direct control service*; or
- (2) a *negotiated distribution service*.

Note

If the AER decides against classifying a *distribution service*, the service is, subject to Chapter 5A, not regulated under the *Rules*.

Further, clause 6.2.2 (a) of the NER states:

Direct control services are to be further divided into 2 subclasses:

- (1) *standard control services*; and
- (2) *alternative control services*.

The costing principles and policies for SA Power Networks (refer section 6) consider the direct attribution of costs to standard control services, alternative control services, negotiated and unregulated distribution services, and to non-distribution services. Costs which are not directly attributable to one particular service type (e.g. most corporate overheads) are subject to a shared allocation of costs between standard control services, alternative control services, negotiated distribution services, unregulated distribution services and non-distribution services.

Standard Control Services include the provision of network capability, maintenance and operation of the distribution system. These services are provided to all customers (residential and business) connected to the electricity network, for which electricity tariffs apply under an AER regulated control mechanism.

Alternative Control Services are monopoly services requested by customers and for which service specific and regulated charges apply. They may be fee based or quoted services.

Negotiated Distribution Services are services for which charges are not regulated and are instead subject to a negotiate / arbitrate framework, in which customers negotiate with SA Power Networks as to the scope of service desired and the charges that should apply. These negotiations are subject to the principles (Negotiated Distribution Service Criteria) and the negotiating framework approved by the AER. Functional separation requirements apply to the delivery of negotiated distribution services under the Ring-fencing Guideline.

Unregulated Distribution Services relate to services that have not been classified by the AER, and are not regulated. Functional separation requirements apply to the delivery of unregulated distribution services under the Ring-fencing Guideline.

Non-Distribution (Unregulated) Services are services that are not directly related to SA Power Networks' distribution network, and include new energy solutions (e.g. PV solar, batteries etc). These services are delivered by the Enerven entities, are supplied in an effective competitive environment and are market regulated. Non-distribution services are provided to any agency, business or individual requesting services in a competitive market.

6. Costing Principles and Policies

The principles and policies described below apply to the SA Power Networks Partnership, for the delivery of both distribution services by SA Power Networks' regulated business (as the DNSP) and non-distribution services by the affiliated Enerven entities. Any reference to Enerven refers to both Enerven Energy Infrastructure Pty Ltd and Enerven Energy Solutions Pty Ltd.

6.1 SA Power Networks' Costing Overview

SA Power Networks employs a full absorption methodology for assigning costs. This entails assigning all direct and indirect costs to identify the total cost to the organisation of undertaking its work. SA Power Networks' cost collection and reporting is undertaken in SAP, its integrated business management system.

General ledger accounts are used to collect cost inputs, e.g. labour, materials, services, operational vehicles. They are assigned to each cost allocator and provide an input view of costs. General ledger accounts are also used to provide the Statutory and Board reporting for SA Power Networks (and Enerven)².

SA Power Networks also assigns costs to capital and operating job/work orders in SAP. These capture costs for distinct items of work which, for example, may be job specific or program specific. For major jobs or work programs, projects may be established in SAP as the reporting unit. This may be a collection of job/work orders summarising at a project level, or it may be a distinct unit for reporting. This therefore represents an output view of costs.

Job/work orders are assigned an SA Power Networks' functional area when created in SAP. They are assigned to one functional area only. Functional areas also identify work outputs, but at a higher (summed) level than job/work orders. Functional areas are the link to identifying regulatory costs as they measure the costs of different lines of business for each of SA Power Networks' distribution service types.

In the case of operating expenses, costs consolidate to a profit centre which includes a functional area view. A profit centre measures both cost inputs, e.g. labour and materials, and cost outputs, e.g. substation maintenance. In the case of capital expenditure, costs ultimately settle to an asset in the balance sheet.

6.2 Directly Attributed Costs

As discussed in section 6.1, SA Power Networks has in place a comprehensive functional area structure that defines the lines of work to which each transaction relates. The functional area clearly identifies revenue and cost as relating to standard control services (operating or capital), alternative control services (operating or capital), negotiated and unregulated distribution services (operating or capital) or non-distribution services (operating or capital). Directly attributed costs are discussed in more detail below by category of expenditure, with a summary contained in table 1 on page 13.

Labour and Related Expenditure

Labour and related expenditure includes costs associated with SA Power Networks' internal resources, labour contractors and their associated costs. Costs are assigned to job/work orders by way of standard rates. Labour rates are calculated at a cost centre level and are mostly location based and specific to job types, e.g. line workers, electrical mechanics, asset inspectors.

² Statutory and Board reporting is required for both the SA Power Networks Partnership and Enerven.

Total labour costs for internal employees are calculated to include normal and overtime salaries and wages, associated payroll on-costs and employee/industry allowances. Payroll on-costs include public holidays, leave, superannuation, and payroll tax. Labour rates for billable (i.e. non-support) work also recover the non-billable time of employees (by way of a labour on-cost) including attendance at general and safety meetings and down-time to perform administrative duties. They may also include allowance for miscellaneous costs, such as mobile phone charges, clothing, safety equipment, direct supervision and support costs (e.g. administrative officers). Alternatively, these costs may be apportioned across all directly attributed costs as a general business cost (refer below).

An availability charge is also applied to job/work orders relating to emergency supply restoration for allowances paid to workers rostered outside of normal working hours for the purpose of responding to faults, extreme weather events and other network emergencies. Total labour costs are divided by total available hours to arrive at an average labour rate.

External labour contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. Such supplementary labour costs are incorporated into labour rates for assigning to job/work orders.

Labour and related costs are charged at standard rates directly to job/work orders by way of employee (including supplementary labour contractor) timesheets being entered into SAP. They are calculated for the following year as part of the annual budget cycle.

Materials

Materials are directly assigned to job/work orders at cost. They include stock items distributed through SA Power Networks' centralised warehouse and specific purchases of irregular or low turnover items such as specialised transformers, plant and equipment, and computer hardware. An on-cost is added to stock materials to cover the cost of warehousing and delivery of materials held in the central store. This is in the form of a percentage applied to the direct cost of material (calculated as the budgeted cost of material on-costs over the value of materials distributed). Different rates may apply for different material types depending upon value and turnover; rates for the following year are calculated as part of the annual budget cycle.

Services

Services costs, relating to services provided by external parties (excluding supplementary labour contractors described above), are treated similarly to materials in that they are directly assigned to job/work orders at cost. They include the provision of civil works, earthmoving and tree cutting services, externally provided asset construction and maintenance services, travel and accommodation and training services. Consultancies for agreed deliverables are similarly categorised as services.

Operational Vehicles

Operational vehicles, i.e. heavy fleet, are centrally managed by the Fleet group and assigned to work groups. An average hourly rate per vehicle class is calculated to incorporate the total operating cost of vehicles including fuel, registration, maintenance and repairs, and fleet management, and divided by the expected productive hours of utilisation. Note that operating costs associated with light fleet (i.e. passenger vehicles) are incorporated in general business costs.

Operational vehicle costs are charged at standard rates directly to job/work orders by way of employee timesheets, that include vehicle utilisation. Vehicle rates are calculated for the following year as part of the annual budget cycle.

Costs associated with the management and support of projects and operational business units, as well as the operating costs of light fleet, are distributed evenly across all directly attributed costs.

Miscellaneous costs such as mobile phones and clothing costs may also be distributed (where not included in labour rates). This is in the form of a percentage applied to the direct costs, which comprise labour and related expenditure, materials, services and operational vehicles of a job/work order (calculated as budgeted total management and support costs over total direct costs). Different rates are applied for each operational business unit; rates for the following year are calculated as part of the annual budget cycle.

A summary of directly attributable costs is contained in table 1 below. A list of regulated services that SA Power Networks reports against, for which costs are directly attributed, is contained in table 2 on pages 12 and 13.

Table 1: Directly Attributed Costs

Costs are directly attributed to standard control services, alternative control services, negotiated distribution services, unregulated distribution services or non-distribution services on the basis shown below:

Cost	Description	Basis of attribution (driver)
Labour and related costs	Includes the following: <ul style="list-style-type: none"> ▪ Normal and overtime salaries and wages, associated payroll on-costs and employee/industry allowances ▪ Supplementary labour support from external providers 	Standard rates specific to location and job type, directly attributed by employee timesheet to job/work order
Materials	Stock items or purchases of irregular or low turnover items (e.g. specialised transformers)	Directly attributed to job/work order. Stock materials incur a percentage on-cost for warehousing and delivery costs
Services	Provision of services by external parties (e.g. distribution licence fee, civil works, consultancies, travel and accommodation, training services, insurance, rates and taxes etc)	Directly attributed to job/work order
Operational vehicles	Heavy fleet operating costs including fuel, registration, maintenance and repairs, and fleet management	Standard rates specific to vehicle type, directly attributed by employee timesheet to job/work order

Costs associated with the management and support of operational business units are distributed across all directly attributed costs.

Table 2: Directly Attributed Regulated Services

Listed below are SA Power Networks' standard control, alternative control and negotiated distribution services for which costs are directly attributed:

Standard Control Opex

Network Operating Costs

- Distribution Licence Fee
- Network Access, Monitoring and Control
- Network Access Management
- Network Asset Systems and Information
- Network Telephony
- Regulatory Compliance

Network Maintenance Costs

- Asset Assessment (Inspections)
- Asset Maintenance
- Substation Property Maintenance
- Vegetation Management
- Emergency Response
- Demand Management
- Guaranteed Service Level Payments
- Network Insurance

Customer Service Costs

- Call Centre
- Customer Billing (previously called Full Retail Contestability)

Other Directly Attributed Costs

- Property – DLC Land Tax
- Accounts Receivable Asset Damage
- Taxation Consultants
- Apprentice Training
- Debt Raising Costs

Standard Control Capex

Network – Augex

- Capacity – Reinforcements and Upgrades
- Reliability
- Environmental
- Safety
- PLEC (Undergrounding)
- Strategic

Network – Repex

- Asset Replacement and Refurbishment

Network – Connection

- Customer Connections
- (less) Customer Contributions (net of Rebates)

Non-Network Expenditure

Information Technology
Property (including Easements)
Heavy Vehicle Fleet
Light Vehicle Fleet
Plant and Tools
Strategic
Telecommunications
Other

Alternative Control Opex

Network Maintenance Costs

Meter maintenance

Customer Service Costs

Meter Reading
Meter Data Services
Meter Customer Billing

Alternative Control Capex

Connections

Customer Connections - Meters
(less) Customer Contributions (net of Rebates)

Asset Replacement

Asset Replacement - Meters

Negotiated Distribution Services

Non-standard Network Services
Non-standard Connection
New and Upgraded Connection Point
Non-standard Customer Metering
Public Lighting (Opex and Capex)
Stand-by and Temporary Supply
Asset Relocation, Temporary Disconnection and Temporary Line Insulation
Embedded Generation
Other Services
- Disconnection/Reconnection
- High Load Escorts
- Emergency Recoverable Works
Other

6.3 Allocated Costs

Corporate costs relate to the organisational groups supporting the operational functions of SA Power Networks. Examples of SA Power Networks' corporate support groups are Finance, Information Technology, Human Relations, Work, Health & Safety and Property Services.

The Customer Relations group relates to regulated (i.e. distribution network) customer management including customer services, customer operations and customer programs. Costs (excluding call centre which are directly attributed) are allocated as for corporate costs.

SA Power Networks does not charge corporate costs directly to job/work orders for regulatory purposes. Rather the operating costs incurred by each group are allocated between standard control services, alternative control services, negotiated and unregulated distribution services, and non-distribution services based on the type of service provided.

Alternative control services currently represent the provision of standard metering services by SA Power Networks only.

For many corporate allocations, there is a clear causal basis for allocation. For example, human relations and learning and development costs are allocated on the basis of the number of employees. For some services however, there is no clear causal allocator and costs are allocated on the basis of total revenue for each service classification or a weighted average of causal allocators. The method for allocation of each corporate cost is described in table 3 on the following page. An example of the weighted average of causal factors is shown in table 4 on page 25.

It should be noted that for regulatory accounting, SA Power Networks allocates superannuation and self-insurance costs on a cash, rather than accrual, accounting basis to ensure consistency with how regulatory allowances are determined. An adjustment is made for the difference between actual cash paid and the amount expensed in the regulated accounts, which is then allocated between distribution and non-distribution services on a basis consistent with the expensed costs.

From a Regulatory Accounting perspective, all corporate costs are treated as an operating expense.

Table 3: Allocated Costs

Corporate costs are allocated to standard control services, alternative control services, negotiated distribution services, unregulated distribution services or non-distribution services on the bases shown below. In circumstances where a causal allocation basis can be established, costs are allocated on a causation basis. Where this is not the case, costs are allocated on a non-causal basis, with care and consideration given to ensure that the allocation method chosen best reflects the use of the relevant services:

	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Office of the CEO				
CEO	NC	The office of the Chief Executive Officer	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators.
Company Secretary				
Company Secretary	NC	Services to the SA Power Networks' Board, governance and compliance, legal services, real estate, audit services and risk management	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the Company Secretary group.
Legal Services	C	Legal counsel, legal compliance	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Labour costs associated with a legal officer dedicated to the Enerven business are allocated to non-distribution services.</p> <p>Remainder of costs are allocated to standard control, alternative control, negotiated and unregulated distribution services based on total regulated costs.</p>

C = Causal, NC = Non-Causal

	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Company Secretary (continued)				
Real Estate – Offices and Depots	C	Real estate management services, including rates and taxes, property acquisition and disposal, property lease and easement management.	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Distribution Lessor Corporation (DLC) land tax relates to distribution assets acquired (by lease) on privatisation. These costs are directly attributed to standard control services as a cost of operating the electricity distribution network.</p> <p>Everven directly incur costs of offices or depots leased specifically to deliver non-distribution services.</p> <p>The remainder of Real Estate costs are allocated between substations and depots based on property rates.</p> <p>Substation costs are directly attributed to standard control services as a cost of operating the electricity distribution network.</p> <p>Office and depot costs are allocated between distribution and non-distribution services on basis of FTE splits (excluding FTE's working from Enerven leased offices or depots).</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>

C = Causal, NC = Non-Causal

	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Company Secretary (continued)				
Audit Services	C	Independent review of business strategies, systems and processes	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Allocated between distribution and non-distribution services based on audit days proposed in the annual Internal Audit Plan.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution costs based on total regulated costs.</p>
Risk & Insurance – Shared Insurance Premiums	C	Insurance premiums to cover general risks including: <ul style="list-style-type: none"> • Combined Liability (e.g. products, professional indemnity) • Fidelity guarantee • Contract works • Depots/Offices • Personal Accident • Transit 	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Total risk and insurance costs (excluding support costs) are allocated between network insurance and shared insurance premiums based on the type of insurance.</p> <p>Network insurance costs (e.g. bushfire risk liability) are directly attributed to standard control services as a cost of operating the electricity distribution network.</p> <p>Shared insurance premiums are allocated dependent on type of insurance e.g. fidelity guarantee, depots/offices, combined liability, personal accident allocated on basis of FTEs; contract works allocated on basis of revenue for each service classification; transit based on stock materials.</p>
Risk & Insurance – Support Costs	NC	Risk and Insurance support costs including: <ul style="list-style-type: none"> • Brokers fees • Management and administration costs 	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>No ideal causal allocator: costs allocated on the basis of the weighted average of total insurance policy allocations.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Finance				
CFO	NC	Office of the Chief Financial Officer	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the Finance group.
Corporate Finance	NC	Taxation (excluding consulting costs directly attributable to standard control services) and treasury services, reporting to key internal and external stakeholders, budget process management and accounts receivable, excluding that associated with the identification, invoicing and collection of third party damage to SA Power Networks' assets (which is directly attributed to standard control services as a cost of operating the electricity distribution network).	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	No ideal causal allocator: costs allocated on the basis of total revenue for each service class.
Operational Finance	C	Management reporting, budgeting, financial control of operational groups	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Costs are allocated for services provided.</p> <p>Network Management and Field Services' finance group costs are allocated to standard control, alternative control, negotiated and unregulated distribution services based on distribution service revenue splits.</p> <p>Enerven finance group costs are allocated to non-distribution services.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Finance (continued)				
Regulatory Finance	C	Financial regulatory matters, including preparation of the Regulatory Accounts	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution costs based on total distribution services revenue splits.</p>
Purchasing and Contracts	C	Procurement contract establishment and contract management, payment of vendor invoices	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	Allocated on the basis of stock material and service contract costs.
Information Technology				
Information Technology	C	Provision, maintenance and support of IT systems and services, and development of new IT systems and services	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Allocated between distribution and non-distribution services on basis of IT systems and FTE usage data.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis on regulated labour hours.</p>
Corporate Strategy				
General Manager Corporate Strategy	NC	Management of the Corporate Strategy group	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the Corporate Strategy group.
Regulation (Excluding Licence Fee)	C	Compliance with Regulatory codes and guidelines (excluding the licence fee, which is directly attributed to standard control services)	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution costs based on total regulated costs.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Corporate Strategy (continued)				
Strategic Planning	NC	Management of annual strategic planning process	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	No ideal causal allocator: costs allocated on the basis of total revenue for each service class.
Communications and Stakeholder Management	C	Corporate communications (including advertising and marketing) and stakeholder management	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Any advertising or marketing for the non-distribution business is borne directly by the Enerven group.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution costs based on distribution services revenue splits.</p>
People and Culture				
General Manager People and Culture	NC	Management of the People and Culture group	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators for the People and Culture group.
Human Resources	C	Employee relations, including payroll, personnel issues and industrial relations, workforce learning and development (excluding training) and organisational change functions	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Costs allocated between distribution and non-distribution services on basis of FTE splits.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis on regulated labour hours.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
People and Culture (continued)				
Training Centre	C	Costs associated with the operation of the in-house centre for distribution network training, including curriculum, training materials etc (excluding apprentice training costs)	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Costs, excluding apprenticeship costs and training centre management (see below), are allocated to the regulated business only between standard control, alternative control, negotiated and unregulated distribution services on basis on regulated labour hours.</p> <p>Apprentice training costs are directly attributed to standard control services as a cost of operating the electricity distribution network.</p> <p>Any specific training for the Enerven group will be charged direct to the group.</p>
Training Centre Management	NC	Costs associated with management of the in-house training centre	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	No ideal causal allocator: costs allocated on the basis of the weighted average of all allocators (including apprentice training) for the training centre.
Work Health & Safety	C	Health and safety management	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Enerven have dedicated OHS personnel as part of their group structure to support the non-distribution business.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution costs based on regulated labour hours.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
People and Culture (continued)				
Environment	C	Environment management	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Enerven have dedicated environmental personnel as part of their group structure to support the non-distribution business.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution costs based on regulated labour hours.</p>
Property – Offices and Depots	C	Property management, including maintenance and alterations and additions associated with offices and depots	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Everven directly incur costs of offices or depots leased specifically to deliver non-distribution services.</p> <p>Total property costs are allocated between substations and depots based on property rates.</p> <p>Substation property costs are directly attributed to standard control services as a cost of operating the electricity distribution network.</p> <p>Office and depot costs are allocated between distribution and non-distribution services on basis of FTE splits (excluding FTE's working from Enerven leased offices or depots).</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Customer Relations				
General Manager Customer Relations	NC	Management of the Customer Relations' group	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution services on the basis of the weighted average of all allocators for the Customer Relations group.</p>
Customer Services	C	Customer facing activities (excluding the call centre), including: <ul style="list-style-type: none"> • Customer enquiries • Investigation/Customer response • Builder and Contractor coordination • Customer service training 	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Call centre costs are directly attributed to standard control services as a cost of operating the electricity distribution network.</p> <p>Services provided support the regulated business only.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution services on the basis of distribution services revenue splits.</p>
Customer Operations	C	Customer transactional activities, including: <ul style="list-style-type: none"> • Customer billing • Retailer relations • Meter data management • Connection services 	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution services on the basis of distribution services revenue splits.</p>
Customer Programs	C	Development and governance of customer service activities, including: <ul style="list-style-type: none"> • Customer service strategy • Strategic projects • Data management and compliance • Customer analytics 	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution services on the basis of distribution services revenue splits.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Customer Relations (continued)				
Customer Engagement	C	Customer management and engagement activities, including: <ul style="list-style-type: none"> • Major customer management • Customer reference group liaison • Industry and retailer relations • Customer communications (incl website) 	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Services provided support the regulated business only.</p> <p>Costs are allocated between standard control, alternative control, negotiated and unregulated distribution services on the basis of distribution services revenue splits.</p>
Other				
Employee Bonuses	C	Bonus payments made to employees for surpassing specified targets, including financial, safety and customer service	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Allocated between distribution and non-distribution services on basis of FTE splits.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>
Voluntary Separation Packages (VSP's)	C	Incentive payments to employees to leave the organisation	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Actual costs will be assigned to group that the separating employee is based.</p> <p>Costs will be further allocated based on the relevant services or allocator for that group.</p>

C = Causal, NC = Non-Causal

Cost	C/ NC	Description	Service(s) allocated to	Basis of allocation (driver)
Other (continued)				
Self Insurance Adjustment	C	Represents public liability events with an incurred cost in excess of \$100k per annum plus all workers compensation costs. Self-insurance costs are allocated on a cash, rather than accrual, accounting basis, consistent with the manner in which submissions are made and allowances are determined in the price determination process. This adjustment reflects the difference between the cash paid and the amount expensed in the Financial Accounts.	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Public liability costs will be allocated based on the relevant services and allocators that apply to each individual event.</p> <p>Workers compensation costs are allocated between distribution and non-distribution services on basis of FTE splits. Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>
Superannuation Adjustment	C	Superannuation costs are allocated on a cash, rather than accrual, accounting basis, consistent with the manner in which submissions were made and allowances were determined in the price determination. This adjustment reflects the difference between the cash paid and the amount expensed in the Financial Accounts.	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	Costs allocated across each capital and operating business segment on the basis of labour hours for each division of employee entitlements.

C = Causal, NC = Non-Causal

An example of a weighted average of causal factors is contained below for the Chief Financial Officer as part of the Finance group. Costs and allocation percentages shown are illustrative only. Allocations for CEO, Company Secretary, GM Corporate Strategy, GM People and Culture, GM Customer Relations, Training Centre Management and Risk and Insurance Support Costs will be calculated on a similar basis.

Table 4: Example of a Weighted Average of Causal Factors – CFO

Finance Department (excluding CFO)	Causal Allocator	Standard Control		Alternative Control		Negotiated Distribution		Unregulated Distribution		Non-Distribution		Total	
		\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Corporate Finance	Total Revenue	3,446	76	91	2	408	9	45	1	544	12	4,534	100
Operational Finance (Network Management & Field Services Finance)	Distribution Service Revenue	1,775	87	41	2	204	10	20	1	0	0	2,040	100
Operational Finance (Enerven Finance)	Non-Distribution only	0	0	0	0	0	0	0	0	596	100	596	100
Regulatory Finance	Distribution Service Revenue	184	87	4	2	21	10	2	1	0	0	211	100
Purchasing and Contracts	Stock Materials and Service Contracts	2,504	65	193	5	539	14	39	1	578	15	3,852	100
Directly Attributed*	Standard Control only	397	100	0	0	0	0	0	0	0	0	397	100
Total Finance (excl CFO)		8,305	71	328	3	1,172	10	106	1	1,718	15	11,630	100
CFO Allocation	Weighted Ave of Finance Allocations	498	71	20	3	70	10	6	1	103	15	697	100
Total Finance (incl CFO)		8,803	71	348	3	1,243	10	113	1	1,821	15	12,327	100

* includes accounts receivable for asset damage and taxation consulting costs that are directly attributed to standard control services as a cost of operating the electricity distribution network.

6.4 Balance Sheet Disaggregation

Revenues and expenses are allocated between standard control, alternative control, negotiated distribution, unregulated distribution services and non-distribution services by functional area as outlined above. Capital (asset) and operation and maintenance services are directly attributed in this manner. Financing costs and taxation expenses are not allocated.

From a balance sheet perspective, with the exception of property, plant and equipment, SA Power Networks allocates working capital items only as these can be related to the type of service provided. This includes receivables, inventory, trade payables and provisions.

As stated in section 6.2, capital expenditure is directly attributed and does not include corporate costs. A separate asset register is maintained of property, plant and equipment for regulatory account purposes, which is reconciled to SA Power Networks' financial accounts.

A summary of allocators applied to working capital items is contained in table 5 below.

Table 5: Working Capital Allocations

Working capital items in the Balance Sheet are allocated to standard control services, alternative control, negotiated and unregulated distribution services or non-distribution services as shown below:

Cost	Causal/ Non-Causal	Service(s) allocated to	Basis of allocation (driver)
Electricity (Retailer) Receivables	Causal	<ul style="list-style-type: none"> Standard control Alternative control 	<p>Relate to standard control and alternative control services only.</p> <p>Separate general ledger accounts are established for electricity receivables, but are allocated between standard control and alternative control services on the basis of distribution revenue.</p>
Non-Electricity Receivables	Causal	<ul style="list-style-type: none"> Negotiated distribution Unregulated distribution Non-distribution 	<p>Enerven (non-distribution) receivables are derived from dedicated profit centres in SAP.</p> <p>Distribution service receivables are allocated between negotiated and unregulated distribution services on basis of non-electricity revenue.</p>
Inventory	Causal	<ul style="list-style-type: none"> Standard control Negotiated distribution Non-distribution 	<p>Stock materials are held principally to meet the requirements of the regulated business.</p> <p>Enerven (non-distribution) specific inventory is derived from dedicated profit centres in SAP.</p> <p>Public lighting specific inventory is allocated to negotiated distribution services, with the remainder allocated to standard control services.</p>

Cost	Causal/ Non-Causal	Service(s) allocated to	Basis of allocation (driver)
Prepayments	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Non-distribution 	<p>Prepayments are allocated based on the nature of the prepaid expense.</p> <p>For example, prepaid insurance premiums are allocated on the basis of insurance premiums, regulatory licence fees are directly attributed to standard control services.</p> <p>Enerven (non-distribution) prepayments are derived from dedicated profit centres in SAP.</p>
Creditors	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Enerven (non-distribution) creditors and accruals receivables are derived from dedicated profit centres in SAP.</p> <p>Distribution service creditors and accruals are allocated between standard control, alternative control, negotiated and unregulated distribution services on the basis of total operating and capital expenditure.</p>
Unearned Income	Causal	<ul style="list-style-type: none"> • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Unearned income relates to prepaid non-electricity invoices only.</p> <p>Enerven (non-distribution) unearned income is derived from dedicated profit centres in SAP.</p> <p>Distribution service unearned income is allocated between negotiated and unregulated distribution services on basis of total non-electricity revenue.</p>
Leave Provisions	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-Distribution 	<p>Annual and long service leave provisions are allocated between distribution and non-distribution services on basis of FTE splits.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>

Cost	Causal/ Non-Causal	Service(s) allocated to	Basis of allocation (driver)
Employee Bonus Provision	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Allocated between distribution and non-distribution services on basis of FTE splits.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>
Provision for Site Restoration	Causal	<ul style="list-style-type: none"> • Standard control 	Directly allocated to standard control services as site restoration relates to distribution network sites (e.g. substations).
Provision for Workers Compensation	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Allocated between distribution and non-distribution services on basis of FTE splits.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>
Provision for Self Insurance and Minor Claims	Causal	<ul style="list-style-type: none"> • Standard control 	Directly allocated to standard control services as relates predominately to claims for non-supply, power surges etc.
Provision for Income Protection	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution 	<p>Allocated between distribution and non-distribution services on basis of FTE splits.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>

Cost	Causal/ Non-Causal	Service(s) allocated to	Basis of allocation (driver)
Payroll and Payroll Tax Control	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control • Negotiated distribution • Unregulated distribution • Non-distribution 	<p>Allocated between distribution and non-distribution services on basis of FTE splits.</p> <p>Distribution services costs are further allocated between standard control, alternative control, negotiated and unregulated distribution services on basis of regulated labour hours.</p>
Transmission Rebates	Causal	<ul style="list-style-type: none"> • Standard control • Alternative control 	Split on the basis of electricity revenue.
Provision for Warranty	Causal	<ul style="list-style-type: none"> • Non-distribution 	Provisions for warranty relate to the non-distribution (Enerven) business only. The value is derived from dedicated profit centres in SAP.

6.5 Related Party Costs

SA Power Networks has established two new entities to deliver non-distribution services, in accordance with the AER's Ring-fencing Guideline. These entities are Enerven Energy Infrastructure Pty Ltd which will provide infrastructure services, and Enerven Energy Solutions Pty Ltd which will provide 'other electricity services' to customers. These entities are collectively referred to as Enerven.

The Enerven entities are wholly-owned subsidiaries of the SA Power Networks Partnership (i.e. affiliated entities) and commence trading from 1 January 2018. Whilst Enerven will provide non-distribution services to customers, it may also be contracted to provide direct control or negotiated distribution services on behalf of the SA Power Networks' DNSP.

Service agreements will be established between the DNSP and Enerven for services provided, and transactions between the entities will be reported as related party in Statutory and Regulatory Accounts, and in the relevant RINs.

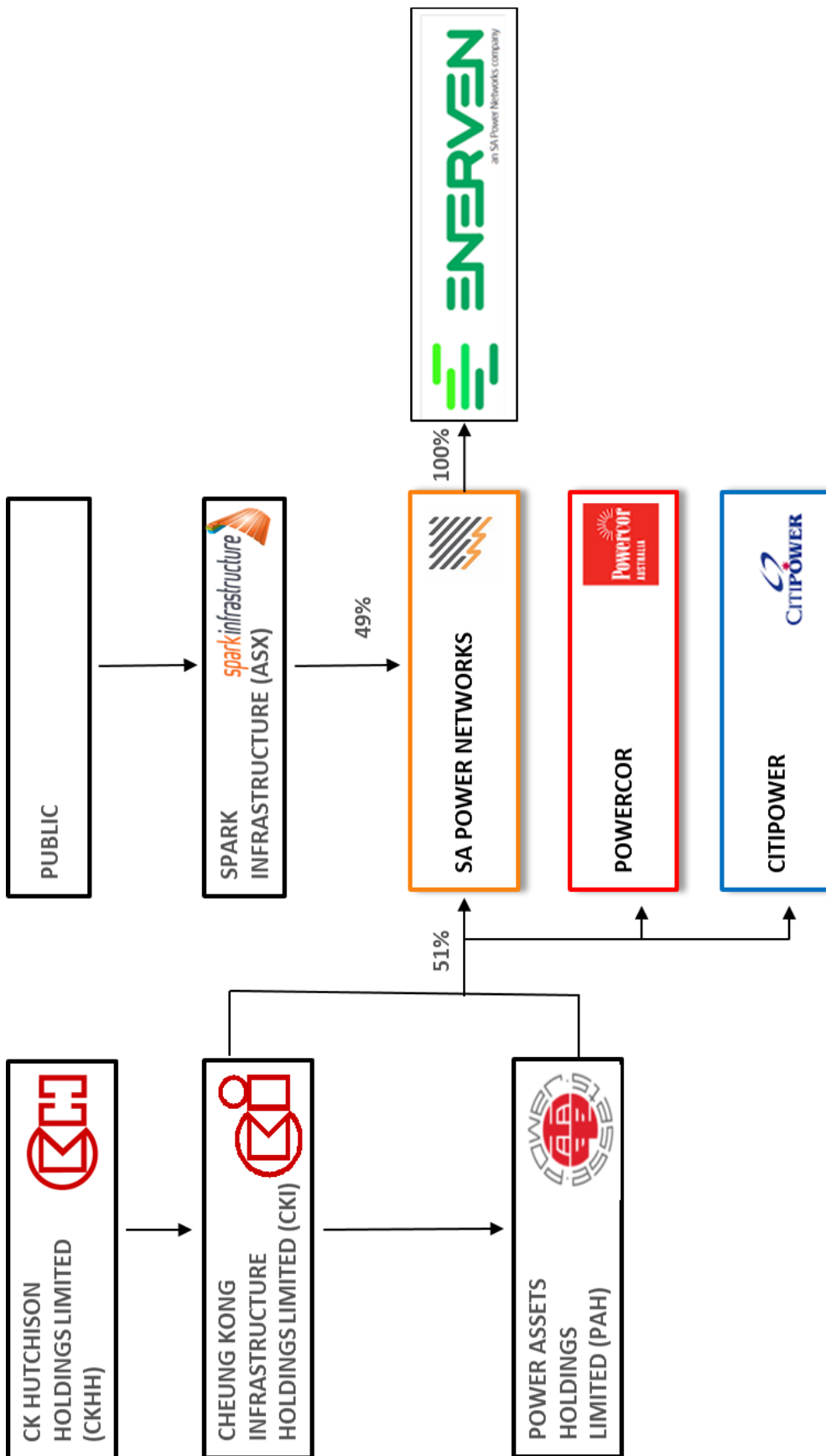
SA Power Networks also shares common ownership with Victorian DNSPs, Powercor and CitiPower. SA Power Networks has a separate Board and is operated as a totally separate entity to the Victorian DNSPs. Any services provided between the groups are at arms-length and service level agreements are established between the entities.

Additionally, SA Power Networks has a relationship with Hutchison International and Vodafone Hutchison through its ownership structure. Again, all transactions with Hutchison are at arm's length.

All related party transactions undertaken by SA Power Networks are contained in its audited Statutory and Regulatory Accounts. Costs and revenues are directly attributed as for other transactions provided by external parties.

A diagrammatic representation of SA Power Networks' ownership structure, showing related parties, can be found on the following page.

Figure 2: SA Power Networks' Ownership Structure at 31 October 2017



7. Record Maintenance

As described in section 6, SA Power Networks derives costs through its mainframe integrated business information system.

SA Power Networks' audited Statutory financial accounts (annual and half-year) form the foundation for overall costs from which its Regulatory Accounts are assigned to the relevant services.

Full documentation is maintained in preparation of the Regulatory Accounts. Supporting cost reports are generated and working files prepared, including cost allocations containing bases as well as numeric and percentage values consistent with the approved Cost Allocation Method.

Financial data reported in each of the Annual, Economic Benchmarking and Category Analysis RINs is in accordance with, and reconciled to, the Regulatory Accounts.

All reports and files are made available to the external auditors for the purpose of expressing an opinion that the financial information contained in the Annual, Economic and Category Analysis RINs is presented fairly in accordance with this Cost Allocation Method. As part of this process, SA Power Networks' Chief Financial Officer and General Manager Corporate Strategy sign a Management Representation Letter, attesting to the auditors that the RINs have been prepared in accordance with these documents.

Upon finalisation of the audit process, relevant General Managers sign a memo confirming the accuracy of the data contained in each individual RIN and endorse the Chief Executive Officer to sign a Statutory Declaration attesting that the information contained in each RIN, to the best of his/her knowledge, is true and accurate in all material respects.

8. Compliance with Cost Allocation Method and Guidelines

The Regulatory Accountant in SA Power Networks is responsible for preparing annual Regulatory Accounts for submission of the Annual RIN and the financial components of the Economic Benchmarking and Category Analysis RINs in accordance with the approved Cost Allocation Method and the AER Cost Allocation Guidelines. Compliance is endorsed by management and reviewed by independent auditors.

9. Effective Date

SA Power Networks will report in accordance with this current Cost Allocation Method with respect to all reporting from 1 February 2018.