



Cost Allocation Methodology

1 January 2011



UNITED ENERGY
Distribution

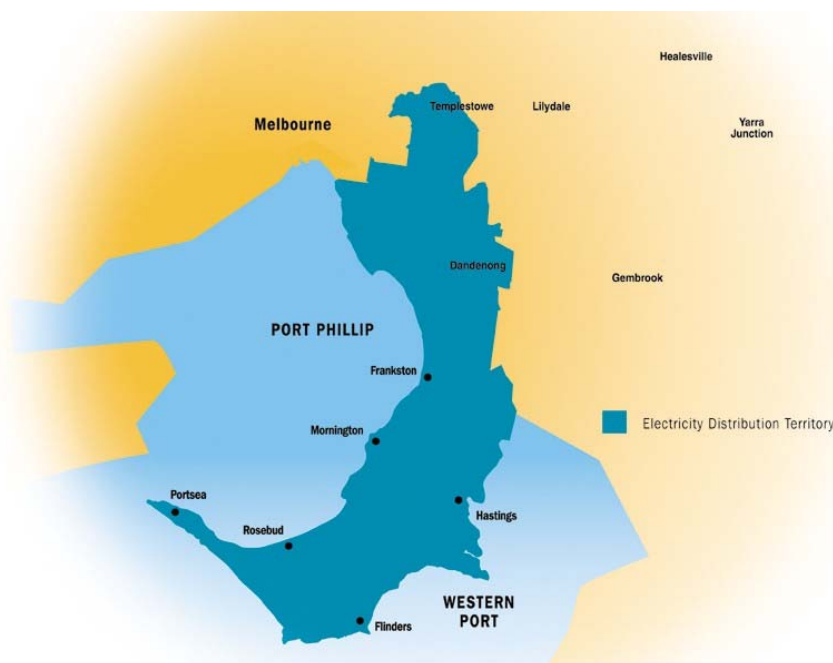
Version 1.0

Table of Contents

1	INTRODUCTION.....	3
2	COST ALLOCATION METHODOLOGY	4
3	NATURE SCOPE AND PURPOSE OF THE DOCUMENT	5
4	ACCOUNTABILITIES.....	9
5	DESCRIPTION OF UED’S CORPORATE AND OPERATIONAL STRUCTURE	10
6	CATEGORIES OF DISTRIBUTION SERVICES.....	14
7	DETAILED PRINCIPLES AND POLICIES FOR COST ATTRIBUTION	16
8	DIRECTLY ATTRIBUTED COSTS	19
9	COMPLIANCE MONITORING	34
10	RECORDS MAINTENANCE	35
11	DATE OF EFFECT	36

1 Introduction

United Energy Distribution (UED) is one of five electricity distribution network service providers operating under licence within the State of Victoria, with assets totalling approximately \$3.0 billion. UED’s network provides services to some 630,000 end-use customers in Melbourne’s southern and eastern suburbs, with its area of operation confined to geographically defined boundaries set out in the Distribution Licence. A map is provided below;



UED is ultimately owned 66 per cent by Diversified Utility and Energy Trust (DUET) and 34 per cent by SPI (Australia) Assets Pty Ltd (SPIAA). Refer section 5 for more details.

2 Cost Allocation Methodology

a. Version History

Under clause 11.17.5 of the National Electricity Rules (Rules) UED is required to submit to the AER for approval a Cost Allocation Methodology (CAM) as part of its regulatory proposal. UED has chosen to submit a CAM to the AER for approval prior to its formal regulatory proposal so that the regulatory proposal can be submitted without any amendments required due to a change in the CAM.

This CAM is version 1.0.

The date of issue is the date of approval.

The date of commencement is 1 January 2011.

On approval UED will post this CAM on UED's website (www.unitedenergy.com.au)¹.

¹ See clause 6.15.4(h) of the Rules

3 Nature Scope and Purpose of the document

The purpose of this document is to set out the Cost Allocation Method (CAM) to be adopted by UED for the purposes of allocating costs in accordance with the requirements of the NER from 1 January 2011².

As required by clause 6.15.4(c) of the Rules and clause 3.1(b) of the Cost Allocation Guidelines for Victorian electricity distribution network service providers dated June 2008 (CAG), this CAM gives effect to and is consistent with the CAG.

Specifically,

- Clause 2.2.1(a) – the CAM contains detailed principles and policies to attribute costs directly to, or allocate costs between, different categories of distribution services to enable the AER to replicate reported outcomes and for the DNSP to demonstrate it is meeting the requirements of the CAG;
- Clause 2.2.1(b)(1) – the CAM contains two tables, titled capital activities and maintenance activities, that describe the nature and characteristics of each cost item and which distribution service they are attributed to. The CAM separately describes UED's record keeping;
- Clause 2.2.1(b)(2) – a list is provided of cost centres and how these shared costs are allocated to distribution services. The nature of the allocators and the reasons for the selection of those allocators is described, as is the treatment of those allocators that will change during the regulatory period. The allocators are appropriate as they are causal or, if non causal, the basis of allocation is described (and is consistent with clause 2.2.4);
- Clause 2.2.2 – costs are attributed or allocated based on the substance of the underlying transaction or event
- Clause 2.2.5 – the CAM is designed to ensure there is no double counting of shared costs;
- Clause 2.2.6 – the CAM is consistent with the distribution ring fencing guidelines;
- Clause 2.2.7 – costs will not be re-allocated during the course of a regulatory control period;
- Clause 2.2.8 – the CAM has regard to previous cost allocation in accordance with the ESC distribution pricing determination and allows effective comparison of historical and forecast cost allocation between the period to

² See clause 1.4(b) and 5.1(b) of the CAG.

which the ESC distribution pricing determination applies and later regulatory control periods. There is an allocation of costs between operating expenditure and capital expenditure (as was relevant to the ESC distribution pricing determination) and between Direct Control Services (Standard and Alternative Control Services) and Negotiated Services (which accords with the allocation to Regulated by Price Cap and Excluded Services during the ESC distribution pricing determination period) ;

Consistency with Cost Allocation Principles

Having met the requirements of the CAG, it follows that the CAM is consistent with the Cost Allocation Principles required by clause 6.15.2 of the NER. For completeness, however, we note that the CAM meets those principles as follows:

- Clause 6.15.2 (1) – this CAM contains sufficient detailed principles and policies to allocate costs between different categories of distribution services to enable the AER to replicate reported outcomes;
- Clause 6.15.2 (2) – costs have been allocated according to the substance of a transaction or event rather than its legal form;
- Clause 6.15.2 (3) – costs have been allocated either directly attributed to the services or costs have allocated using an appropriate allocator;
- Clause 6.15.2 (4) – cost allocations are clearly described in the CAM including reasons for using specific allocators;
- Clause 6.15.2 (5) – costs are not allocated more than once
- Clause 6.15.2 (6) – the principles, policies and approach used to allocate costs are consistent with the Distribution Ring-Fencing Guidelines;
- Clause 6.15.2 (7) – costs allocated to a particular service will not be re-allocated to another service during the course of a regulatory control period.

Requirements of clause 11.17.5(d)(3) of the Rules

Clause 11.17.5(d)(3) is also relevant as UED's proposed CAM differs from the method previously used by it.

In July 2003, UED entered into an Operating Services Agreement (OSA) with Jemena Asset Management (JAM6) under which Jemena provides to UED construction and maintenance services. These services relate to Regulated by Price Cap and Excluded Services and the fee paid by UED is fixed according to various provisions of the OSA.

UED allocates this fixed operating fee paid between Regulated by Price Cap and Excluded Services by using allocators derived from 2002. That year was the last full year of operation prior to the OSA and therefore applying the allocation from that year provides a positive correlation between the basis of allocation and the

services that the costs represent. It is an allocation methodology that has been accepted by UED’s auditors and by the Essential Services Commission in the preparation of UED’s Regulatory Accounts.

This allocation methodology will apply until 30 June 2011 after which the current OSA will not continue. From 1 July 2011, the policies and principles set out in the CAM will apply.

Mapping

Current Description	Proposed description
Regulated by price cap	Standard Control
Excluded services	Alternative Control
Prescribed Services	AMI OIC
Other	Non regulated

Comparison of historic cost allocation methodology compared to proposed CAM

Item (current)	Current methodology	%	Item (proposed)	Proposed methodology	%
Regulated by price cap	Costs are directly allocated where possible. Shared costs are allocated in accordance with the benchmark allowances in the 2001 EDPD	83%	Standard Control	Costs are directly allocated in accordance with the description provide in this CAM. Shared costs are allocated based on revenue.	81.0%
Excluded services	Costs are directly allocated where possible. Cost not directly allocated are based on 90% of revenue earned.	9%	Alternative Control	Costs are directly allocated in accordance with the description provide in this CAM. Shared costs are allocated based on revenue.	5.2%
Prescribed Services	Costs are directly allocated where possible. Shared costs are allocated in accordance with the benchmark allowances in the 2001 EDPD	7%	AMI OIC	Costs are directly allocated in accordance with the description provide in this CAM and the CROIC. Shared costs are allocated based on revenue.	13.8%
Other	Not applicable	0.0%	Non regulated	Not applicable	0.0%
		100.0%			100.0%

4 Accountabilities

The board of UED is responsible for ensuring the overall performance and governance of UED and its subsidiaries.

In order to assist the board in effectively discharging its powers and duties, it has delegated responsibility for the day-to-day operation and management of UED to the CEO, and the senior management team. The board retains the ultimate legal responsibility for the exercise of powers delegated to senior management. The CEO and senior management are required to report to the board on the exercise of these powers on an ongoing basis.

As described in section 5 of this CAM, UED has appointed Pacific Indian Energy Services (PIES) as its agent to perform management services for it. As its agent, PIES is responsible for providing the 'Services' set out in the Management Services Agreement to UED. In summary, these include (without limitation), developing the regulatory strategy for UED, and ensuring compliance by UED with all legal and regulatory matters. These services are provided pursuant to the delegation and under the authority of the board.

The CEO, CFO & Company Secretary, COO and other senior management (who are employed by PIES) are appointed as officers of UED pursuant to this agency arrangement. Specific responsibilities delegated to management are summarised in Section 5 of this CAM. The agency arrangement does not, at law, impact on their accountability as officers of UED, or on the board's legal obligations.

UED's detailed principles and policies for attributing costs to, or allocating costs between, different categories of distribution services that meet the requirements of clause 2.2 of the CAG is described in this CAM.

Responsibility for updating, maintaining and applying this CAM is with the Chief Financial Officer. The Chief Financial Officer is also responsible for internally monitoring and reporting on the application of this CAM.

In meeting these responsibilities, the Chief Financial Officer is accountable to the board of UED, as outlined above.

UED is committed to implementing this CAM.

5 Description of UED's corporate and operational structure

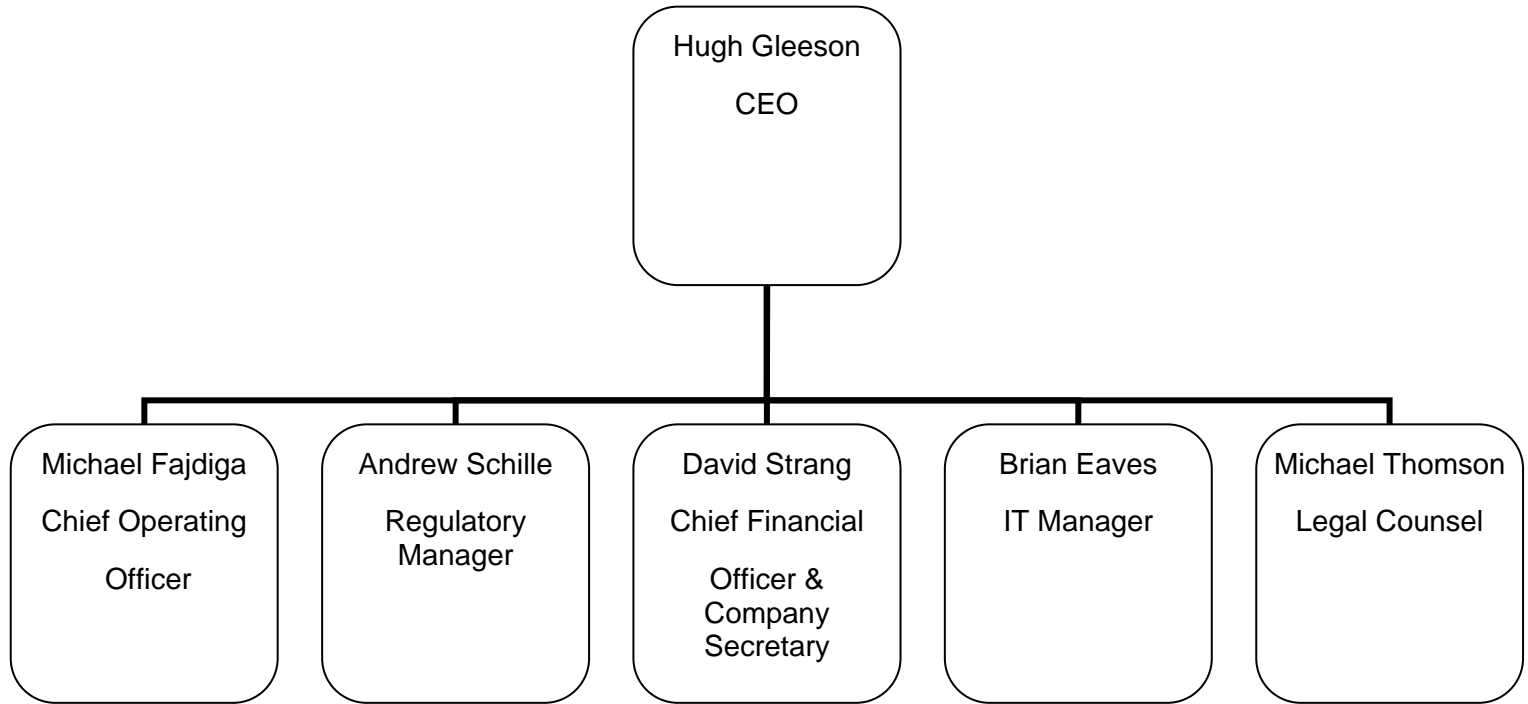
UED's organisational and operational structure has been developed so that it aligns with business strategy and stakeholder expectations.

The roles and responsibilities of each general manager are described below:

- CEO – company management, strategic planning, business structure, stakeholder relations, board management
- Chief Financial Officer and Company Secretary – Statutory and management reporting, financial planning, annual budgets, taxation, treasury, accounts payable, accounts receivable, payroll, regulatory accounting, accounting policies, company secretary
- IT Manager – Strategic IT management and planning, IT contractor management, desktop management, help desk
- Legal Counsel - Legal services, easements, contract management
- Chief Operating Officer - Distribution asset planning, control room operations, asset management, maintenance planning, engineering, capital construction, field maintenance activities, contractor management, meter reading, call centre, meter data services, fault room management
- Regulatory Manager - Regulatory compliance, pricing submissions, regulatory policy, performance reporting

UED also has a Chairman and Board of Directors comprising representatives from its major shareholders.

UED's organisation structure as at 1 December 2010 is provided below:.



Jemena Asset Management (6) Pty Ltd (JAM6) provide the bulk of the operating, maintenance and construction services to UED. JAM6 are 100% owned by SPIAA. in accordance with an Operating Service Agreement (OSA.)

UEDH ownership structure is the same as UED. UEDH provides strategic management and treasury services to UED. These services are provided by the shareholders and are for regulated services. UEDH charges these services at cost to UED.

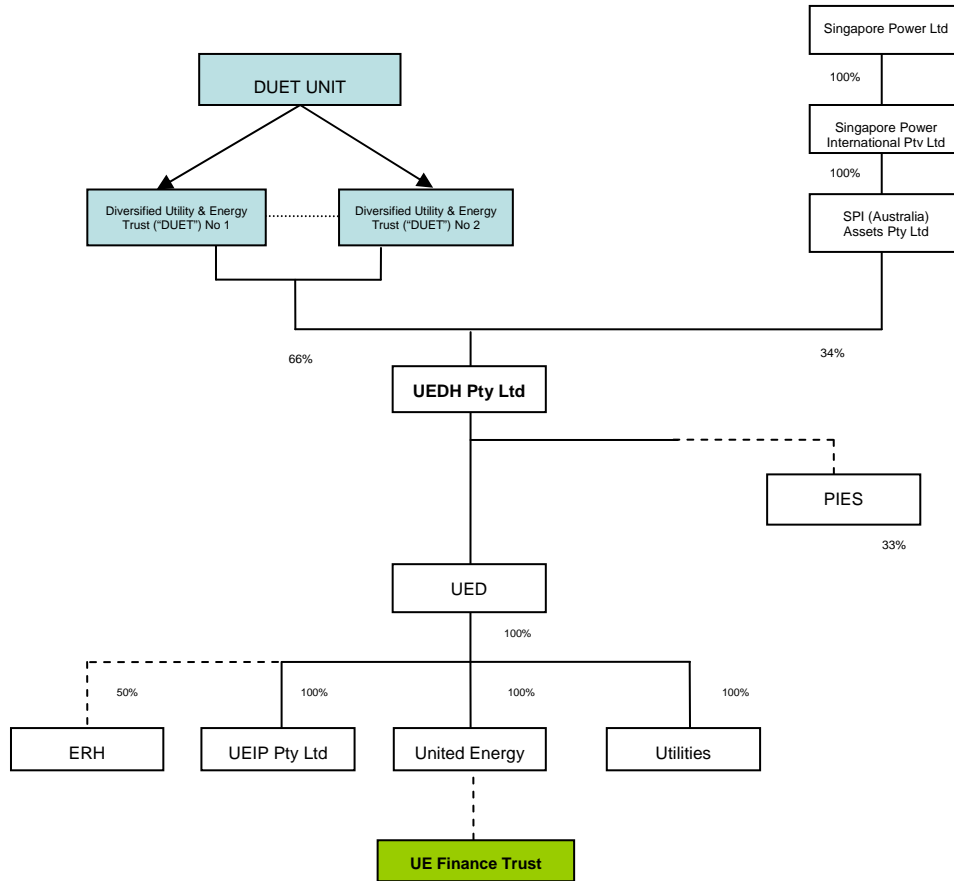
UEDH is a holding company that sits above UED and the other companies in the UE group and was established to be the focal point for the management of UED's electricity distribution business and the UE group. For example, the Board operates from the UEDH level. UEDH's responsibilities include but are not limited to:

- General management and corporate governance;
- Financial management, accounting and reporting;
- Corporate strategy and planning;
- Corporate relations and stakeholder management
- Risk and quality management
- Treasury management
- Regulatory management
- Overseeing customer and back-office management
- Overseeing operations, network planning and investment decision making;
- Insurance management; and
- Contract management, including the operations contract between UED and JAM6

UED fulfils these responsibilities through resources directly employed by it, through resources contracted by it (including PIES and AMP Capital Investors) and through support provided by it's shareholders: DUET and SPIAA

All related party transactions are disclosed in UED's audited statutory and regulatory accounts.

UED Corporate Structure Diagram



UED is a stand-alone distributor and does not retail electricity, nor provide construction or maintenance services to any other business. UED has a contract with a third party (JAM6) for the construction, maintenance and operation of its distribution network.

6 Categories of distribution services

Distribution services provided by UED must be classified as either:

- a *direct control service*; or
- a *negotiated distribution service*

Direct control services are further divided into:

- *standard control services*; and
- *alternative control services*.

1. *Direct Control Services - Standard Control Services*

Services provided as Standard Control Services are recovered via Distribution Use of System tariffs and make up the bulk of services provided by UED. These services are ultimately provided to all end-use customers connected to UED's electricity distribution network. Services include the maintenance and operation of UED's distribution system including vegetation management, fault restoration, asset inspection, planned maintenance, reactive maintenance, emergency management, and the 24 hour control room. Capital expenditure is incurred to provide Standard Control services including ensuring capacity requirements are met, replacement capital, asset refurbishment, new connections services (in accordance with Guideline 14) and network growth

2. *Direct Control Services - Alternative Control Service*

Alternative Control Services are recovered via specific prices to those customers that have requested the service. Alternative Control Services are not recovered via Distribution Use of System tariffs. These services include; public lighting maintenance and replacement, energisation of new connections, temporary supplies, service truck visits, elective undergrounding, low voltage covers – most of the services previously referred to as excluded services are now referred to as Alternative Control Services.

3. *Negotiated Services*

Services provided as Negotiated Services are recovered via specific prices to those customers that have requested the service. Negotiated Services are not recovered via Distribution Use of System tariffs. Negotiated services include relocation and alteration of public lighting assets and new public lighting.

4. Non-regulated Services

UED does not provide any non-regulated services.

5. AMI services – Cost Recovery Order in Council

Metering services that are recovered under a specific Victorian Order in Council (AMI OIC). The activities for which costs are recovered pursuant to the AMI OIC are set out in schedule 2 section 2.1 of that document.

UED will amend this Section of the CAM in accordance with clause 4.2(a) of the cost allocation guidelines so as to apply the AER's final classification of services.

7 Detailed principles and policies for cost attribution

Overview of systems and costing principles

UED utilises SAP as its financial management and works management system. UED's SAP system is fundamentally structured that it complies with statutory reporting requirements utilising various job ledgers in order to prepare management reports. It will also be structured so that it complies with this CAM.

Each expense (capital and non-capital) must be coded with a general ledger account code and a cost centre code. Some expenses will also be allocated to a job ledger code in order to collect costs in more detail. The broad grouping of general ledger account codes are as follows:

- Labour;
- Materials;
- External services;
- Contracts;
- Direct overheads;
- Transport & logistics; and
- Miscellaneous

For more detailed reporting, costs are then coded to a job ledger code. Each job ledger code is assigned to an activity code (activity codes will summarise multiple job ledger codes). This allows UED to group individual jobs by like activities which in turn allows UED to prepare management and regulatory reports.

Typically cost centres will be used for corporate, overhead type services and those services that provide one service only e.g. finance, network management, control room or regulatory costs. Job ledger codes are created for more detailed reporting for capital and maintenance type activities.

Directly allocated costs

Each cost centre and activity code (job number summary) has costs directly attributed to it. These are the general ledger account codes described above. The manner in which general ledger account code costs are attributed to either cost centre or activities is described below:

Labour

Labour related costs include salaries paid to employees, superannuation, payroll on-costs such as work care levy, payroll tax and other allowances. Labour costs are directly attributed to cost centres. Individual cost centres are able to have any number of people attributed to them, based on the type of work performed by the individual and who they report to in the organisation structure.

Labour may be job costed to individual projects as required. In the case that labour is job costed each cost centre has its own specific average rate that is costed to individual projects based on the hours worked and recorded via manual time sheet process. The average rate is designed to recover total labour costs described above plus an additional allowance for leave and other specific job related tools such as mobile phones, tools etc. Labour recovery does not include recovery of general overheads such as supervision, accommodation, IT related costs etc.

The net labour amount attributed to cost centres are allocated to various relevant headings based on the rule for the individual cost centre.

External labour will be directly charged to cost centre or job ledger codes. These costs will then be allocated based on the rule set up for the cost centre or job ledger code.

Materials

UED does not currently have a central stock system for day to day stock requirements but does hold stock for strategic spares. Materials supplied for capital construction and maintenance activities are provided by the service provider performing the works in almost all cases.

Strategic spares are held by UED for stock that has a long lead time or for equipment that can no longer be purchased. In these cases spares are attributed directly to the job as required at book value.

As from 1 July 2011 UED plans to have a stock system and issue materials directly to external service providers as required. Materials will be allocated directly to job numbers at cost plus a surcharge to recover the cost of managing the logistics function. This will include:

- the cost of purchasing;
- warehousing costs;
- premise costs; and
- delivery costs

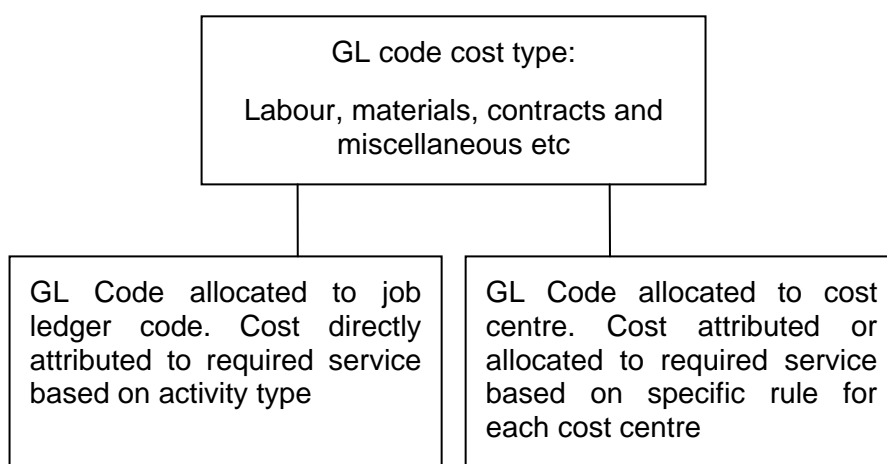
Jobs will attract a flat rate surcharge rate for each six monthly period designed to recover the cost of handling materials. This rate comprises of costs associated with the storage of strategic spare parts for the network. The surcharge rate applied to jobs is the total forecast costs associated with the storage of strategic spares divided by the forecast expenditure of related jobs. This reflects the average cost of storing strategic spares based on the cost of the job. The rate will vary depending on actual costs incurred and inventory turn-over. Twice per annum any under or over recovery of actual costs compared to the surcharge recovery will be reconciled. The rate will be adjusted to reflect the actual cost of the provision of inventory costs, subject to materiality.

All other services

Services provided by external parties or for other goods and services are all directly attributed to either a cost centre or specific job number. This includes the payment of service providers for capital construction and maintenance, payment for licence fees, and payment for audit and other professional services.

Attribution Process

Costs are allocated to the required distribution services as described in the diagram below. In summary all costs will be coded to a general ledger costs. All costs are also coded to either a cost centre or a job ledger code. Cost centres will attribute their costs to a distribution service based on the allocation rules provided for in section 8 table titled “allocated costs” and job ledger codes are allocated based on the rules in section 8 tables titled “capital activities” and “maintenance activities.”



8 Directly attributed costs

The table below contains the detailed activity codes for which the costs are directly attributed to a category of distribution services.

Capital Activities

Internal category	Service	Comments	Consistency with current approach
Customer Initiated			
Customer Business Supply	SC	Allocated to standard control in accordance with Guideline No. 14	Yes
Metering	CROIC	Unclassified AMI Cost Recovery Order in Council	Yes
Dual & Multiple Occupancy	SC	Allocated to standard control in accordance with Guideline No. 14	Yes
Co-Generation & Renewable Energy Projects	SC	Allocated to standard control in accordance with Guideline No. 14	Yes
Medium Density Housing	SC	Allocated to standard control in accordance with Guideline No. 14	Yes
Public Lighting – includes public lighting at the request of customers including the replacement of existing lighting with new energy efficient lighting	NS	Charged directly to developers as a negotiated service	Yes
Minor Capital Lights	NS	Charged directly to developers as a negotiated service	Yes
Special Capital Works/Recoverable Works	SC	Allocated to standard control in accordance with Guideline No. 14	Yes

Internal category	Service	Comments	Consistency with current approach
Customer Initiated			
Low Density/Small Business Supply (<10kVA)	SC	Allocated to standard control in accordance with Guideline No. 14	Yes
Replacement			
Sub/T Comms & Protect Sys Replacement	SC	Directly allocated	Yes
Network High Voltage Installation Replacement	SC	Directly allocated	Yes
Public Lighting Replacement – only includes a like for like replacement. Where existing lighting is replaced with new energy efficient lighting this is costed and funded by customer initiated capital	AC	Directly allocated	Yes
Service Replacements	SC	Directly allocated	Yes
Network Overhead Line Replacement	SC	Directly allocated	Yes
Network Pole Replacement	SC	Directly allocated	Yes
Pole Reinforcement	SC	Directly allocated	Yes
Sub/T Installation Replacement	SC	Directly allocated	Yes
Network Underground Cable Replacement	SC	Directly allocated	Yes
Pole Top Replacement	SC	Directly allocated	Yes
Other	SC	Directly allocated	Yes
Demand			
Distribution System Augmentation	SC	Directly allocated	Yes

Internal category	Service	Comments	Consistency with current approach
Customer Initiated			
Sub/T Overhead Line Augmentation	SC	Directly allocated	Yes
Distribution System Augmentation	SC	Directly allocated	Yes
Zone Substation Augmentation	SC	Directly allocated	Yes
Performance			
Distribution System Performance	SC	Directly allocated	Yes
Environmental Management	SC	Directly allocated	Yes
Network Fire Mitigation Capital	SC	Directly allocated	Yes
Quality or Supply	SC	Directly allocated	Yes
Remote Monitoring & Control Schemes	SC	Directly allocated	Yes
Sub/T System Performance	SC	Directly allocated	Yes
Other Capital			
Information Technology	SC and CROIC	Directly allocated and Unclassified AMI Cost Recovery Order in Council	Yes
Vehicles	SC and AC	Allocated based on weighted revenue average	Yes
Property	SC and AC	Directly allocated	Yes

Maintenance Activities

Internal category	Service	Comments	Consistency with current approach
Fixed Charges	NS & AC	Directly allocated	Yes
Distribution Faults	SC	Directly allocated	Yes
TVI's	SC	Directly allocated	Yes
Voltage complaints	SC	Directly allocated	Yes
Pole inspection and treatment	SC	Directly allocated	Yes
Overhead asset inspection	SC	Directly allocated	Yes
Vegetation Control	SC	Directly allocated	Yes
Environmental maintenance	SC	Directly allocated	Yes
Pole top & oh line maintenance	SC	Directly allocated	Yes
Distribution maintenance SG	SC	Directly allocated	Yes
Distribution HV installation maintenance	SC	Directly allocated	Yes
Meters & time-switch maintenance	CROIC	Unclassified AMI Cost Recovery Order in Council	Yes
UG cable maintenance	SC	Directly allocated	Yes
Claims	SC	Directly allocated	Yes
Routine maintenance	SC	Directly allocated	Yes
Condition based maintenance	SC	Directly allocated	Yes
Meter reading	CROIC	Directly allocated	Yes
Special meter reading	AC	Directly allocated	Yes

SC = Standard control

AC = Alternative Control

CROIC = Victorian Cost Recovery Order in Council

NS = Negotiated Services

Allocated costs

Those costs that are not specifically job-costed are charged to cost centres. These costs generally relate to corporate or support activities and are charged directly to specific cost centres. Cost centre costs are then allocated between standard control services, alternative control services, CROIC, or negotiated services based on the table below. Services provided by PIES are included as per the activity they provide. E.g. UED's CEO is part of the PIES group and the CEO costs charged from PIES to UED will be allocated based on the table below. The charge from PIES to UED will be in accordance with this.

Cost	C/N C	Description	Services	Basis of allocation	Consistency with current approach
CEO					
CEO & EA (**)	NC	The office of the Chief Executive Officer	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – previously allocated directly to standard control
Strategic Planning (**)	NC	Annual strategic planning process	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – previously allocated directly to standard control
Stakeholder relations	C	Communications and stakeholder management with major stakeholders	Standard control Alternative control Negotiated services	Directly allocated – this function has specific tasks and will be costed to the specific service	No – refer allocation approach in section 3
Human resources	C	Management of recruitment and HR policy	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
UEDH	C	United Energy Distribution Holdings provides treasury services and management, strategic services, UED	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – previously allocated directly to standard control

Cost	C/N C	Description	Services	Basis of allocation	Consistency with current approach
		board costs. This category also includes Pacific Indian Energy Services – provides services to UEDH and Multinet. Fee determined based on asset value.			
CFO					
CFO (**)	NC	The office of the Chief Finance Officer	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – previously allocated directly to standard control
Annual planning (**)	NC	Annual planning and budgeting process	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – previously allocated directly to standard control
Statutory reporting (**)	NC	Half yearly and annual statutory reporting process.	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Management reporting	NC	Monthly management reporting	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Tax	NC	Preparation of tax returns and	Standard control	Allocated based on	No – refer allocation

Cost	C/N C	Description	Services	Basis of allocation	Consistency with current approach
		tax compliance	Alternative control Negotiated services	weighted revenue average	approach in section 3
Payroll	NC	Management of payroll system to ensure payment of salaries	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Accounts payable	NC	Payment of external service suppliers of goods and services	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Audit services	NC	Independent review of systems, process, regulatory obligations and financial reporting	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Purchasing	NC	Raising purchase orders for external providers of goods and services.	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Insurance & risk	C	Insurance costs including management of function	Standard control Alternative control CROIC	Insurance costs that relate solely to standard control services will be allocated directly to standard	Yes

Cost	C/N C	Description	Services	Basis of allocation	Consistency with current approach
				control services (e.g. bushfire liability). Other insurance items that cover liabilities across various categories will be allocated via weighted average revenue.	
Chief Operating Officer (**)					
Asset Management	C	Planning for demand and replacement activities.	Standard control	Directly allocated – this function relates solely to the planning of the network and standard control services.	Yes
Maintenance planning	C	Development and review of maintenance asset strategies	Standard control	Directly allocated – this function relates solely to the planning of the network and standard control	Yes

Cost	C/N C	Description	Services	Basis of allocation	Consistency with current approach
				services	
Control room	C	24 hour control room managing electricity load	Standard control	Directly allocated – this function relates solely to the planning of the network and standard control services	Yes
Despatch	C	Despatching crews and service providers to fault calls and other network activities	Standard control	Directly allocated – this function relates solely to the planning of the network and standard control services	Yes
Call Centre	C	Call centre for faults and other enquiries	Standard control Alternative control	Based on call volumes	No – refer allocation approach in section 3
Property	NC	Property management, rates, land tax, and other outgoings	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
OHS	C	Health and safety management	Standard control	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Customer	C	Customer enquiries and	Standard control	Directly allocated –	No – refer allocation

Cost	C/N C	Description	Services	Basis of allocation	Consistency with current approach
service		ombudsman investigations	Alternative control	required predominately for standard control services	approach in section 3
Billing and Revenue collection	NC	Revenue collection and billing function.	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
GSL payments	C	Payment of guaranteed service levels for relevant services	Standard control Alternative control	Directly allocated	Yes
Meter data services	C	Metering services allocated to	CROIC	Unclassified AMI Cost Recovery Order in Council	Yes
Jemena OSA contract					
OSA - capital	C	Payment to Jemena under the OSA for individual capital projects	Standard control Alternative control Negotiated services CROIC	Directly attributed based on the activity described in table above	Yes
OSA - operating & maintenance fee	C	Payment to Jemena for services provided	Standard control Alternative control Negotiated services CROIC	Allocated based on 2002 results up until June 30 2011	Yes
Regulation					

Cost	C/N C	Description	Services	Basis of allocation	Consistency with current approach
Regulatory Manager (**)	NC	Management of regulatory function	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – previously allocated directly to standard control
Regulation (**)	NC	Regulatory compliance, market operations, etc	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – previously allocated directly to standard control
Information technology					
IT Manager (**)	NC	Management of IT services	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No –previously allocated to standard control
Information Technology	NC	Provision of maintenance and support of IT systems and services.	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No – refer allocation approach in section 3
Legal Counsel					
-Legal Services (**)	NC	Legal counsel and compliance with relevant law.	Standard control Alternative control Negotiated services	Allocated based on weighted revenue average	No –previously allocated to standard control

C = Causal

NC = Non-Causal

(*) The current reporting arrangements in place for the Jemena fixed operating fee paid under the OSA is based on the 2002 allocation of costs. 2002 was the last full year of operation prior to the OSA and therefore has been used as a basis for allocating costs. This allocation is explained in the 2002 regulatory accounting statements as required by Guideline No. 3. This allocation methodology will cease June 30 2011.

(**) Services currently provided by PIES

An example of the weighted revenue average is contained in the table below. The weightings are based on the 2008 regulatory accounts. This table will be updated annually based on forecast budget data.

Weighted Revenue Table: Based on 2008 Regulatory Account Information. The weightings in this table will be applied to those costs centres costs not directly allocated to job codes.

Allocator	Standard Control	Alternative Control	Negotiated Services	Total
Revenue Exc CROIC	412,074 96%	13,534 3%	2,010 1%	427,618 100%

Note: Costs are not allocated to CROIC based on an allocation rule. All costs charged to CROIC are directly charged via invoices or timesheets.

This table will be updated annually based on prior year results.

Balance Sheet Allocation

All property plant & equipment (i.e. capital expenditure) is directly allocated.

A summary of allocators applied to other parts of the Balance Sheet is contained in the table below:

Item	Method	Service	Basis of allocation	
Receivables – Use of System charges	Causal	Standard control	Relate to standard control services only.	Yes
Receivables – non use of system charges	Causal	Alternative control Negotiated distribution CROIC	Allocated on basis of revenue.	Yes
Inventory	Causal	Standard control	Directly allocated.	Yes
Prepayments	Causal	Standard control Alternative control Negotiated services CROIC	Prepayments are allocated based on the nature of the prepaid expense. For example, prepaid insurance premiums are allocated on the basis of insurance premiums, regulatory licence fees are allocated to distribution services.	Yes
Creditors	Causal	Standard control Alternative control Negotiated services CROIC	Creditors and accruals are allocated on the basis of total operating and capital expenditure.	Yes
Leave Provisions	Causal	Standard control Alternative control	Annual and long service leave provisions are allocated between	Yes

Item	Method	Service	Basis of allocation	
		Negotiated services	the relevant headings based on revenue	

9 Compliance monitoring

The Chief Financial Officer is responsible for monitoring UED's compliance with the CAM and the CAG. UED has a risk and audit committee whereby compliance is monitored on a quarterly basis. Compliance with the CAM will be included as part of that reporting and management process.

The Chief Finance Officer's accountabilities for these responsibilities are described in section 5.

External auditors will be required to provide the necessary representation that this CAM has been complied with when preparing Regulatory Accounts and any Regulatory Pricing Proposal.

The cost allocation methodologies described in this CAM will be provided to all related parties – specifically PIES, UEDH and Jemena Asset Management (JAM) (noting that for JAM) they will only apply as from 1 July 2011, in accordance with new contractual arrangements). Major contractors and related parties will also be provided a copy of the approved CAM, however noting that the price paid by UED for individual services will be based on the contractor cost structure and cost allocations. Contractors and related parties will be required to comply with this CAM to the extent the law requires them to comply.

Contractors and related parties will provide sufficient detail to enable UED to cost services directly to specific job ledgers in accordance with this CAM.

This CAM complies with the existing ESCV ring fencing guidelines. This CAM will be amended (if required) when the AER replaces the existing ring-fencing guidelines.

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

UED does not apply an avoided cost allocation.

All queries regarding this CAM can be directed to:

Andrew Schille
Regulatory Manager – United Energy
aschille@ue.com.au
(03) 8540 7818

10 Records Maintenance

In order to demonstrate the attribution of costs to, or allocating costs between, different categories of distribution services in accordance with this CAM to the AER under clause 5.2 of the CAG and to allow that attribution or allocation to be audited or otherwise verified by a third party, including the AER, as required, UED will maintain records of that attribution or allocation as follows:

- All financial records will be kept in UED's financial systems (SAP)
- UED's Statutory accounts will form the basis of all reporting requirements
- All records will be kept for at least seven years
- All records will be made available to external auditors and the AER
- Any changes to this CAM will be supported by working papers and signed off by UED management prior to being submitted for AER approval
- Any changes to this CAM will be approved prior by the AER

11 Date of effect

The date of effect for this CAM is 1 January 2011.