Ringfencing rules

Part 1: Cost Allocation Methodology for Horizon Power

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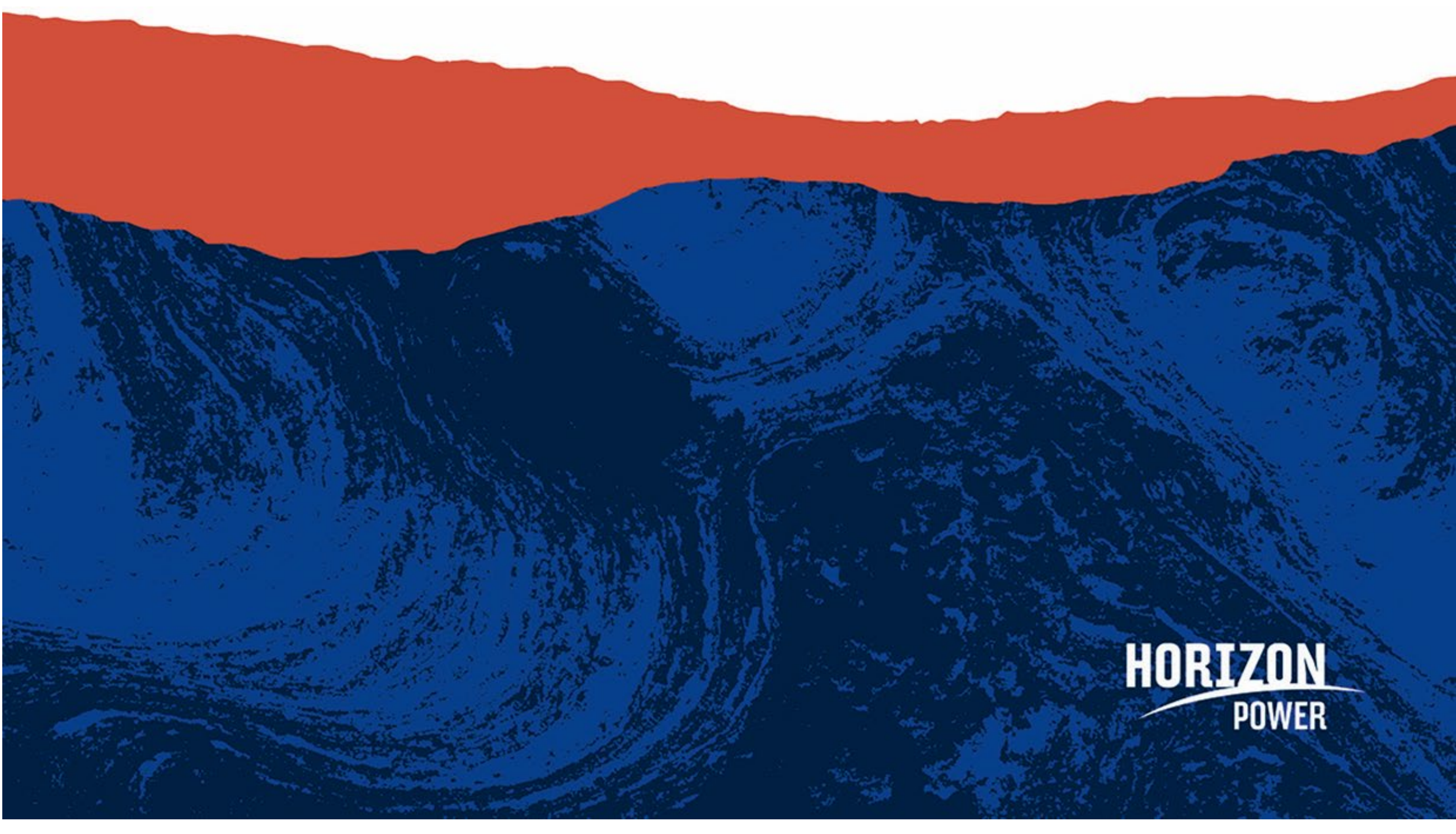

Last Updated	1 July 2021
Review Frequency	15 months prior to the start of each *pricing period*, and within 3 months of an event that has a material impact on this Cost Allocation methodology
Next Review Date	

This policy remains in effect, until replaced or updated, notwithstanding expiration of the review date.

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1. ABBREVIATIONS AND DEFINED TERMS

The following abbreviations are used in this document and have the meaning provided in the table below.

Table 1.1: Document Abbreviations

Abbreviation	Meaning
AASB	Australian Accounting Standards Board
CEO	Chief Executive Officer
CSO	Community Service Obligation
ENAC	Electricity Networks Access Code 2004
FTE	Full Time Equivalent
GTE	Government Trading Enterprise
HP	Horizon Power
ISO	Independent System Operator
NSP	Network Service Provider
NWIS	North West Interconnected System, the common name of the interconnected system of networks described in the *Act* as the "interconnected Pilbara system"
SCADA	Supervisory Control and Data Acquisition
WA	Western Australia

The following defined terms are used in this document and have the meaning provided in the table below.

Table 1.2: Document Defined Terms

Defined term	Meaning
Act	the Electricity Industry Act 2004 (WA).

Defined term	Meaning
associate	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *associate* as, in relation to a person and subject to section 129, has the meaning it would have under Division 2 of Part 1.2 of the Corporations *Act* 2001 of the Commonwealth if sections 13, 16(2) and 17 of that *Act* were repealed, except that a person will not be considered to be an *associate* of an *NSP* solely because that person proposes to enter, or has entered, into a contract, arrangement or understanding with the *NSP* for the provision of a *covered service*.}
bidirectional service	a *covered service* provided at a connection point on the *covered Pilbara network* that is a bidirectional point. {As at 25 June 2021, the *Code* defines bidirectional point as a point on a light regulation network which is, or is to be, identified as such (explicitly or by inference) in a contract for services at which, subject to the contract for services, electricity is expected to be, on a regular basis, both transferred into the light regulation network and transferred out of the light regulation network.}
capital contribution	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *capital contribution* as a payment or provision in kind made, or to be made, by a user either in respect of any new facilities investment in required work or under a headworks scheme.}
Code	Pilbara Networks Access Code 2021 (WA).
contribution	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *contribution* as a *capital contribution* or a non-*capital contribution*.}
covered Pilbara network	has the same meaning given to it in section 3 of the *Act* and for the purposes of this policy includes both a *network* and a right of the *NSP* to use a *network* (to the extent of that right of use). {As at 07 April 2020, the *Act* defines *covered Pilbara network* as a covered *network* that is located wholly or partly in the *Pilbara region*.}
covered service	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *covered service* as a service provided by means of a light regulation *network*, but does not include an excluded service.}
entry service	a *covered service* provided at a connection point on a light regulation network that is an entry point. {As at 25 June 2021, the *Code* defines entry point as a point on a light regulation network, which is, or is to be, identified as such (explicitly or by reference) in a contract for services at which, subject to the contract for services, electricity is more likely to be transferred into the light regulation network than transferred out of the light regulation network.}

Defined term	Meaning
exit service	a *covered service* provided at a connection point on a light regulation network that is an exit point. {As at 25 June 2021, the *Code* defines exit point as a point on a light regulation network which is, or is to be, identified as such (explicitly or by inference) in a contract for services at which, subject to the contract for services, electricity is more likely to be transferred out of the light regulation network than transferred into the light regulation network.}
Horizon Power coastal network	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *Horizon Power coastal network* as— (a) the *network* which became a covered *network* as a result of the Minister's "final coverage decision" of 2 February 2018 under the ENAC; and (b) any other *network* owned by Regional Power Corporation and interconnected as at the *Code* commencement date with the *network* in paragraph (a); and (c) any augmentation as at the *Code* commencement date of a *network* in paragraph (a) or (b); and (d) any augmentation of the *network* which forms part of the *network* under section 4(1).}
Horizon Power Pilbara Network Business	a ringfenced business unit within Horizon Power responsible for the *Horizon Power coastal network,* including those functions carried out by Horizon Power for the purposes of providing network services in the *Horizon Power coastal network*. Note: *Horizon Power Pilbara Network Business* is not a separate legal entity and all contractual commitments will be executed in the name of Horizon Power. Where the term *Horizon Power Pilbara Network Business* is used, it means Horizon Power, acting in its capacity as the owner and operator of the *covered Pilbara network*, as distinct from Horizon Power acting in its capacity as a provider of services to other regions or as a provider of non-regulated services such as generation and retail within the NWIS
interconnection service	a *covered service* provided at a connection point on a light regulation network that is an interconnection point. {As at 25 June 2021, the *Code* defines interconnection point as a point on a network at which an interconnector connects to the network}.
lightly regulated	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *lightly regulated*, in relation to a network, as a light regulation network. As at 25 June 2021, the *Code* defines light regulation network as a *covered Pilbara network* which is regulated by Part 8A of the *Act*.}

Defined term	Meaning
network business	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *network business* as the part of an *NSP*'s business and functions which are responsible for the operation and maintenance of a *covered Pilbara network* and the provision of *covered services* by means of the *covered Pilbara network*.}
network service provider (NSP)	has the same meaning given to it in the *Act*. {As at 07 April 2020, the *Act* defines *network service provider* as the person that operates network infrastructure facilities for the purpose of transporting electricity from generators of electricity to other electricity networks or to end users of electricity.}
non-reference service	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *non-reference service* as a *covered service* that is not a *reference service*.}
other business	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *other business* as the part or parts of an *NSP*'s business which are not the *network business*, and includes any part or parts of the *NSP*'s business and functions which require *covered services* from the *network business*.}
Pilbara region	has the same meaning given to it in the *Act*. {As at 07 April 2020, the *Act* defines *Pilbara region* as the *Pilbara region* defined in the Regional Development Commissions *Act* 1993 Schedule 1.}
price list	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *price list* as the schedule of tariffs for a light regulation network.}
pricing period	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *pricing period* as the defined future period, which must not be more than 5 years, for which a services and pricing policy is applicable.}
reference service	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *reference service* as a *covered service* designated by a services and pricing policy to be a *reference service*, and which is provided on the corresponding reference terms and conditions.}
reference tariff	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *reference tariff* as the tariff specified in a *price list* for a *reference service*.}

Defined term	Meaning
target revenue	has the same meaning given to it in the *Code*. {As at 25 June 2021, the *Code* defines *target revenue* for a light regulation network for a *pricing period* as the revenue determined in accordance with sections 47 to 60.}

2. PURPOSE OF THIS METHODOLOGY

This document provides assurance to the communities served by Horizon Power that the costs it incurs are appropriately allocated between Horizon Power's *network business* and its *other businesses* to mitigate the risk that costs are shifted from Horizon Power's contestable and/or unregulated business segments (*other businesses*) to the *network business*.

For the purposes of this document, the *Pilbara region* refers only to the community served by the interconnected network that supplies that region.

3. WHO DOES THIS METHODOLGOY APPLY TO

This methodology applies to the attribution or allocation of all costs within Horizon Power.

Horizon Power personnel are responsible for maintaining accounting records and transactions (e.g. within the financial system) in compliance with the *Pilbara Networks Access Code 2021* (the *Code*) and this Cost Allocation Methodology, including account code postings to business services and segments, e.g. via projects and/or work orders.

4. BACKGROUND

As a vertically integrated electricity service provider operating in regional Western Australia, Horizon Power provides and markets *covered services* in the *Pilbara region* and also operates in other related markets that are:

- contestable, including the provision and marketing of electricity generation and retail services in the *Pilbara region*, or
- unregulated, including the supply and sale of electricity to customers in regional Western Australia, other than the *Pilbara region*.

By doing so, there is the potential for Horizon Power to:

- restrict competition in a related market
- increase the costs incurred by competitors in a related market
- reduce the perceived or actual quality of the services provided by competitors in a related market
- otherwise gain an unfair advantage over competitors in the related market.

Part 2 of the ringfencing rules set out the competition protection measures that have been taken by Horizon Power to ameliorate these harms. One of these measures is to establish and maintain separate accounts. Clause 8.2.1 of the *Ringfencing rules, Part 2: Competition protection measures for the Horizon Power Pilbara Network Business* state that:

Horizon Power has established, and will maintain, appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between Horizon Power Pilbara Network Business and other business within Horizon Power, that is, those parts of the business that provide or market contestable generation or retail electricity services, or unregulated electricity services.

5. REGULARTORY REQUIREMENTS

The purpose of the Cost Allocation Methodology is to present and explain the method applied to allocate and adjust cost and revenue items to *Horizon Power Pilbara Network Business* and Horizon Power's *other businesses* that provide or market contestable generation or retail electricity services, or unregulated electricity services.

Horizon Power is required to publish this Cost Allocation Methodology, as part of its ringfencing rules, under section 133(1) of the *Code*.

Horizon Power must apply to the Economic Regulation Authority (the Authority) for a determination as to whether this Cost Allocation Methodology adequately addresses the ringfencing requirements in Chapter 8 of the *Code* that relate to cost allocation. A primary objective of Chapter 8 of the *Code* is to ensure that ensures that costs are allocated:

> *… between the network business and any associated or other business of the NSP in a manner which avoids the charges being paid by users of the network business incorporating costs or charges associated with an associate or other business of the NSP (other than charges properly and transparently levied by the associate or other business for services or other things provided to, or at the direction of, the network business or the ISO for the benefit of users, such as charges for the supply of essential system services).*

Section 134(1)(b) of the *Code* requires Horizon Power to allocate or attribute costs relating to its *network business* in a way that:

i. provides a true and fair view of:

   A. the *network business* as distinct from any *other business* carried on by the *NSP* or any *associate* of the *NSP*; and

   B. income derived from, and expenditure relating to, the *network business*; and

   C. the *NSP's* assets and liabilities so far as they relate to the *network business*; and

   D. the percentage of any corporate overhead cost applied to the *network business* for services that provide the *network business* with necessary resources;

and

ii. enables all revenue received by the *NSP* from the provision of goods or services to an *associate* of the *network business* to be separately identified; and

iii. enables all expenditure by the *NSP* on goods or services provided by an *associate* of the *network business* to be separately identified.

This Cost Allocation Methodology will be applied to:

- develop annual regulatory accounts for the *Horizon Power Pilbara Network Business*
- as required, prepare financial information for the *Horizon Power Pilbara Network Business*
- for each *pricing period*, forecast the *target revenue* required, in accordance with Chapter 5 of the *Code*
- on an annual basis, develop the *price list* for access to Horizon Power's *covered Pilbara network*.

The Cost Allocation Methodology constitutes the first part of the ringfencing rules required under section 134(1) of the *Code*.

6. RESPONSIBILITIES AND COMPLIANCE

All Horizon Power staff are individually accountable for coding expenses to the appropriate account code.

The Chief Financial Officer has principal responsibility for Horizon Power's compliance with the Cost Allocation Methodology. The Manager, Finance, in consultation with the Manager, Network Regulation and Open Access, has day-to-day responsibility for allocating costs in accordance with this Cost Allocation Methodology, and for ensuring compliance with this Cost Allocation Methodology.

7. ORGANISATION STRUCTURE AND SERVICES

Horizon Power is a Government Trading Enterprise (GTE) incorporated under the *Electricity Corporations Act 2005*. This means that Horizon Power:

- is ultimately accountable to the State Government (via the Minister for Energy) as the sole owner and shareholder
- operates as a corporatised enterprise with the autonomy to make decisions regarding the maintenance and operation of the Horizon Power network.

7.1 Our structure

Figure 1 illustrates Horizon Power's organisation structure. This structure supports Horizon Power's operating model by:

maximising efficiencies by grouping similar accountabilities together

- to the extent possible given the size of the organisation and the number of contestable customers, separating employees that support the contestable market from those that support the *covered Pilbara network*
- sharing corporate functions across the functions that support the contestable and/or unregulated business segments and the *covered Pilbara network*.

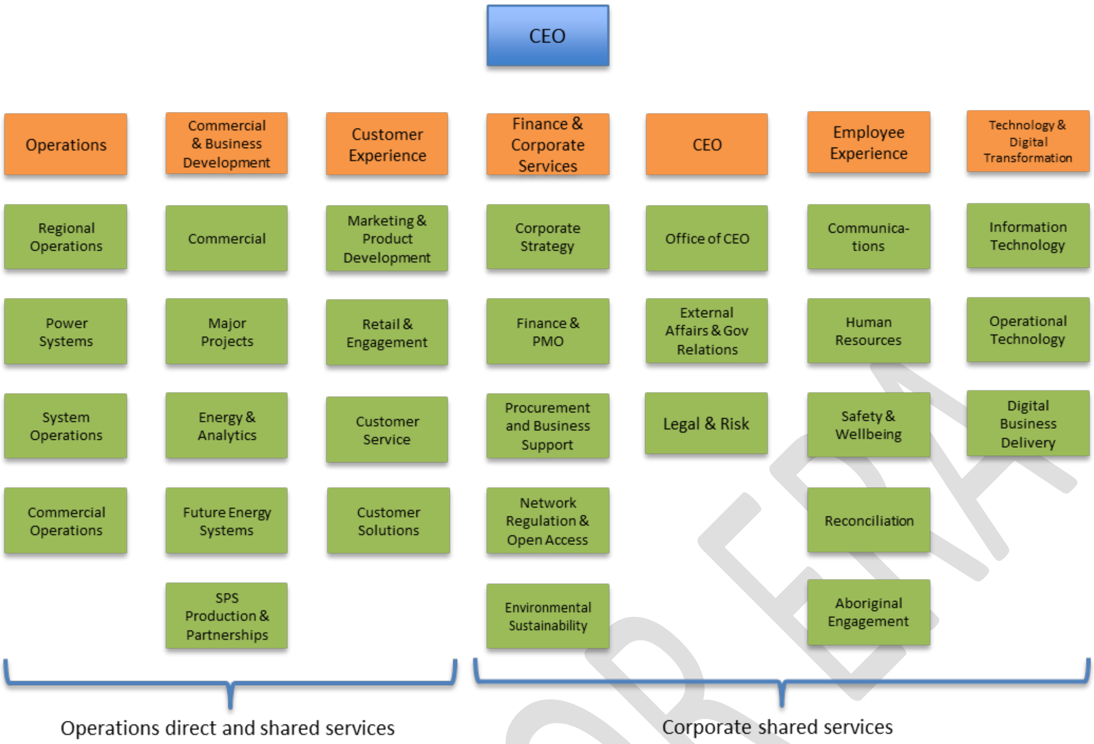

Figure 1: Our Structure

7.2 Our categories of service

Horizon Power is an integrated service provider providing the following services:

- generation
- network (distribution and transmission)
- retail.

It provides services in the following regions:

- Pilbara – East Pilbara and West Pilbara
- other locations in regional Western Australia – Esperance, East Kimberley, West Kimberley, and Mid West.

For the purposes of this Cost Allocation Methodology, the services are categorised as follows:

- regulated (or covered) services, i.e. covered transmission and distribution services in the *Pilbara region* (refer section 8.1.1)
- contestable services in the *Pilbara region*, i.e. generation and retail services (subject to contestability threshold)
- unregulated services in the *Pilbara region*, i.e. retail services (below the contestability threshold), and system control and dispatch
- unregulated services in regional Western Australia, excluding the *Pilbara region*.

Figure 2 illustrates Horizon Power's categories of service in more detail.

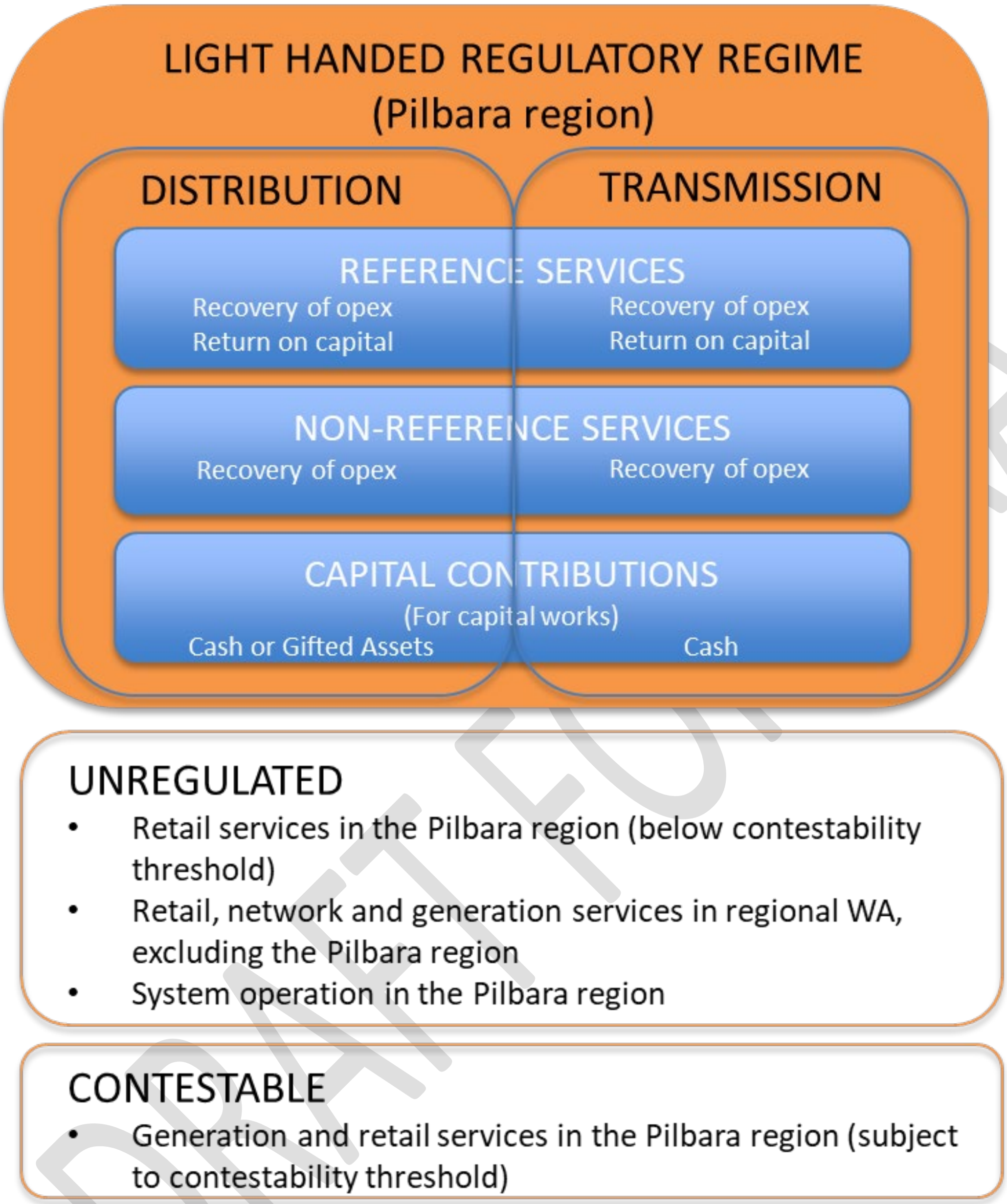

Figure 2: Our Categories of Service

Table 3 identifies the customer types that utilise Horizon Power's services.

Table 7.1: Our Customers by Services

Service	Category of service	Customers
Regulated or covered (*lightly regulated*)	*Target revenue* services (section 8.1.1)	Residential and business customers in the *Pilbara region*
	Non *target revenue* services (section 8.1.2)	
	Contributions (section 8.1.3)	
Contestable	Retail and generation services in the *Pilbara region*	Residential and business customers in the *Pilbara region* (subject to contestability threshold)
	Other contestable services	Residential and business customers
Unregulated	Retail services in the *Pilbara region*	Residential and business customers in the *Pilbara region* (below contestability threshold)
	Retail, network and generation services in regional WA excluding the *Pilbara region*	Residential and business customers in regional WA excluding the *Pilbara region*
	System operation in the *Pilbara region*	ISO

8. BUSINESS SEGMENTS

Horizon Power will disaggregate its audited statutory financial statements (base accounts) into the following business segments:

- regulated (or covered) transmission services
  - East Pilbara
  - West Pilbara
- regulated (or covered) distribution services – *Pilbara region*
- ISO functions (unregulated)
- other unregulated and contestable services – *Pilbara region*
- unregulated and contestable services – other.

8.1 Our regulated (or covered) transmission and distribution services in the Pilbara region

8.1.1 *Target revenue* services (*reference services* and *non-reference services*)

Horizon Power provides *target revenue* services to generators and retailers accessing the *Horizon Power coastal network* in the *Pilbara region*. *Target revenue* services may be provided on the terms and conditions (e.g. tariffs/fees) either:

- *reference services* as set out in the Electricity Transfer Access Contract and the *price list*:
    - two *entry services*, i.e. high voltage distribution *entry service* and an *entry service* facilitating distributed generation or other non-network solution
    - seven *exit services*, i.e. transmission *exit service*, sub-transmission *exit service*, high and low voltage distribution *exit services*, and streetlighting *exit service*
    - five *bidirectional services*, i.e. high and low voltage distribution *bidirectional services* and a *bidirectional service* facilitating distributed generation or other non-network solution
    - one *interconnection service*
    - seven auxiliary services, i.e. disconnection of supply ahead of supply abolishment service, disconnection and reconnection of supply services, and remote and manual de-energise and re-energise services
- reasonably negotiated between the parties in good faith, i.e. *non-reference services*.

To enable the *reference tariffs* to be calculated for each of the *reference services*, the costs that are attributed or allocated to the distribution and transmission services (function) in the *Pilbara region* (location) are attributed or allocated to the following cost pools:

- transmission – East Pilbara and West Pilbara
- sub-transmission – East Pilbara and West Pilbara
- distribution HV – East Pilbara and West Pilbara
- distribution LV
- streetlighting
- metering
- ISO
- non-*target revenue* services.

8.1.2 Non-target revenue services

Horizon Power provides non-*target revenue* services to customers on request. These services are ancillary to the *target revenue* services and are not *lightly regulated*. Non-*target revenue* services are always *non-reference services*.

The commercial terms and conditions (e.g. fees) for non-*target revenue* services are negotiated between the parties. Horizon Power's business and regulatory objectives require these negotiations be reasonable and in good faith.

Examples of Horizon Power's non-*target revenue* services include:

- high load escorts
- transmission enquiry and connection applications, distribution connection applications, access contract modifications.

Non-*target revenue* services are restricted to operating works. They do not include work that is capitalised.

8.1.3 Contributions

Horizon Power receives *contributions* from developers and customers toward the extension or augmentation of electricity infrastructure to facilitate network connection. These *contribution*s can be in the form of either cash or gifted (vested) network assets.

The terms and conditions (e.g. fees) for *contributions* are in accordance with Horizon Power's Contributions Policy.

Examples of where Horizon Power receives *contributions* include:

- work performed for developers, e.g. the construction of electricity infrastructure within a subdivision
- handover works, e.g. upon Horizon Power's approval, electricity infrastructure constructed by developers is gifted (vested)
- upgrade and new connections: customers (e.g. generators) contribute to the upgrade or extension of electricity infrastructure.

8.2 ISO functions

With coverage of the Pilbara networks, Horizon Power will provide services to the Independent System Operator (ISO). The ISO's core functions will be to:

- maintain and improve system security in the interconnected Pilbara system
- facilitate overall network co-ordination and planning for the interconnected Pilbara network.

The ISO functions will be provided by Horizon Power's system control centre.

The system control centre will also provide:

- network monitoring and control functions relating to the *Horizon Power coastal network*
- network monitoring and control functions relating to Horizon Power's regional network in Western Australia, excluding the *Horizon Power coastal network*

- maintenance of system security by dynamically dispatching generators for Horizon Power's retail business in the *Pilbara region*, as required, consistent with a more static load profile forecast provided by the Commercial and Business Development Division.

8.3 Our other services

As an integrated electricity supply business, Horizon Power provides other services.

It provides generation and retail services to customers in the *Pilbara region*. Maximum retail electricity prices for small customers are set by the Government. Retail electricity prices for large customers are negotiated within a competitive market environment.

Horizon Power also provides integrated electricity supply services (retail, network and generation) to customers in regional Western Australia, excluding the customers supplied by the interconnected network in the *Pilbara region*. Maximum retail electricity prices for these customers are set by the Government.

Horizon Power may provide unregulated network services to customers in the *Pilbara region*. If these services are provided, they are subject to natural competition and so the commercial terms and conditions for these services are not *lightly regulated*. The commercial terms and conditions (e.g. fees) for these services are negotiated between the parties. Horizon Power's business objectives require these negotiations to be reasonable and in good faith.

9. COST AND REVENUE ALLOCATION

Horizon Power's cost and revenue items are allocated to locations, functions, and where required, categories of service in accordance with these rules.

Horizon Power broadly categorises these allocations into one of two methods:

1. Direct attribution method (refer section 9.4)
2. Indirect allocation method (refer section 9.5).

The remainder of this section provides an overview of Horizon Power's cost and revenue allocation method.

9.1 Our principles

Cost and revenue items are allocated based on the following principles:

1. Any costs that are directly attributable to the regulated activity or to the other activities are allocated to the activity to which they are directly attributable.
2. Any costs that are not directly attributable are allocated to the regulated activity in accordance with an appropriate allocator, which:

   (a) unless unable to be delivered without undue cost or effort or the cost is immaterial, is causation based, and

(b) otherwise reflects a reasonable and well-accepted allocation approach.

In support of the above, Horizon Power commits to the following principles:

1. A cost or revenue item will not be attributed and/or allocated more than once.
2. A direct cost or revenue item will only be attributed to one location, function and, as appropriate, category of service.
3. An indirect cost or revenue item will only be allocated once between locations, functions and, as required, categories of service.
4. The same cost or revenue item will not be treated as both a direct and an indirect cost or revenue item.
5. The same cost will only be recovered once through tariffs and fees.
6. Unregulated costs will be allocated to the unregulated business segments and will be ringfenced from the recovery of costs through regulated services.
7. The allocation of a cost or revenue item will be determined by the substance of the transaction or event rather than the legal form.
8. An avoided cost allocation method (or any other method of allocation not specifically referred to within these rules) is not currently applied to allocate cost or revenue items.

9.2 Our account code structure

All cost and revenue items are recorded in Horizon Power's financial system via the account code structure. The account code structure enables the production of management, statutory and regulatory reports.

Horizon Power's account code structure comprises 11 characters made up of an eight character cost centre (refer section 9.2.1) and a three character expense element (refer section 9.2.2).

Figure 3 illustrates the segments of Horizon Power's account code structure.

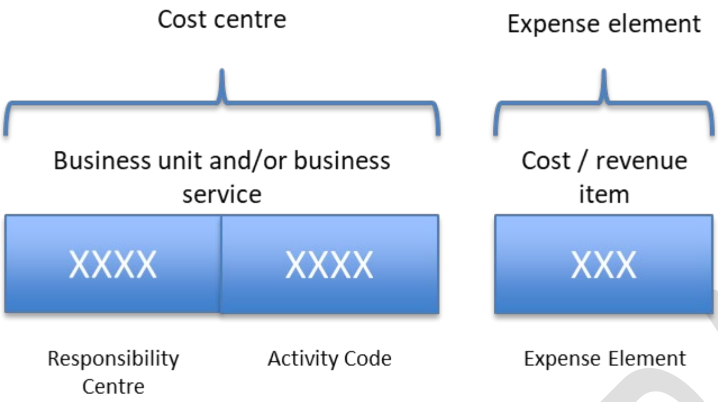

Figure 3: Our Account Code Structure

9.2.1 Cost centre

A cost centre is assigned to each of Horizon Power's projects and work orders. The two segments of the cost centre are explained as follows:

1. **Responsibility centre**: comprises the first group of four characters of the cost centre. The characters are numeric and are used to identify the business unit and/or function, e.g. unique responsibility centres are used to directly attribute costs associated with a particular location (such as Carnarvon, Coral Bay, Denholm etc.).
2. **Activity code**: comprises the second group of four characters of the cost centre. The characters are numeric and are used to identify the business service, e.g. 1@@@ denotes maintenance (energy assets, fleet, property, etc.), 2@@@ denotes revenue and cost of goods sold, 3@@@ denotes capital expenditure and 4@@@ denotes operating expenditure including external services.

9.2.2 Expense element

An expense element is assigned to a cost centre (via a project and/or work order) to form a complete account code when a transaction is recorded within Horizon Power's financial system.

The expense element comprises the last three characters of the account code. The characters are numeric and are used to identify the cost or revenue items, e.g. 1@@ denotes revenue, 2@@ denotes cost of goods sold, 3@@ to 5@@ denote operating expenditure, 6@@ denotes depreciation and 9@@ denotes accounting recharges.

9.3 Our allocation categories

For allocation purposes, Horizon Power uses two categories of costs and revenue:

1. **Direct costs and revenue**, i.e. where the underlying transactions can be directly identified and attributed to a location, function and, where required, category of

service. These items are directly attributed using the account code structure (refer section 9.4).

2. **Shared costs and revenue**, i.e. where the underlying transactions cannot be directly attributed to a function, location and, where required, category of service. These items are allocated using either:
   (a) the 'indirect cost allocation method', e.g. for network shared costs (refer section 9.5.1)
   (b) a method that most appropriately reflects the causal correlation of the underlying transaction, e.g. for system control and dispatch shared costs, corporate shared costs and other income (refer sections 9.5.2, 9.5.3 and 9.5.4).

9.4 Our direct attribution: costs and revenue

Horizon Power's direct items include the following:

- **direct costs**, e.g. labour, material and services associated with operational and capital works undertaken to meet the needs of the network in terms of public safety, operating risks, regulatory compliance, capacity expansion, maintaining service standards and the reliability needs of customers

- **direct revenue**, e.g. *target revenue*, *contributions* and unregulated revenue.

These cost and revenue items are directly identified and attributed to a location, function and, where required, category of service via the account codes of the underlying transactions (typically booked via a project and/or work order), i.e. per the:

- cost centres (refer section 9.2.1); and/or

- expense elements (refer section 9.2.2).

Please refer to Appendices A to C for a more detailed list of Horizon Power's direct cost and revenue items.

9.5 Our indirect allocation: costs and revenue

The costs and revenue transactions that cannot be directly attributed to a particular location and/or function and/or category of service (the indirect items) are allocated. Horizon Power's indirect items include the following:

- operations shared costs (refer section 9.5.1)

- system control and dispatch shared costs (refer section 9.5.2)

- corporate shared costs (refer section 9.5.3)

- indirect revenue, e.g. interest received (refer section 9.5.4).

These cost and revenue items are identified via the account codes of the underlying transactions (typically booked via a project and/or work order), i.e. per the:

- cost centres (refer section 9.2.1); and/or
- expense elements (refer section 9.2.2).

Shared cost and revenue items are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction (refer sections 9.5.1 to 9.5.4).

Please refer to Appendices A to C for a more detailed list of Horizon Power's shared cost and revenue items, and the allocation method applied.

9.5.1 Operations shared costs (allocation method)

Horizon Power's operations shared costs cannot be directly attributed to specific services, e.g. training, travel and non-timesheet labour. Instead, these costs are identified in a 'shared cost pool' and allocated across the works program using Horizon Power's 'indirect cost allocation method'. Operations shared costs generally relate to:

- network services and generation services
- services provided in the *Pilbara region* and services provided in other parts of regional Western Australia
- regulated and unregulated distribution and transmission network services.

Horizon Power allocates operations shared costs to the business segments using a three step process using the method that most appropriately reflects the causal correlation of the underlying transaction. The three step cost allocation process allocates the costs to the:

- location e.g. West Pilbara, then
- function e.g. distribution services, then
- where required, category of service e.g. unregulated distribution service or cost pool for revenue and pricing purposes e.g. distribution LV.

The most common causal correlation methods are as follows:

1. **Direct costs**: costs are allocated based on direct costs when the underlying transaction has a causal correlation to other costs incurred, e.g. costs related to a management role. The direct cost is determined by the ratio of the direct costs in the business segment to the total value of the direct costs that are relevant to the allocation of costs.
2. **Asset value**: allocation on an asset value basis is applied when the underlying transaction has a causal correlation to Horizon Power's principal service of building, maintaining and operating assets, e.g. asset services management. Asset value is determined by the ratios of the asset value in the business segment to the total value of some or all of Horizon Power's assets, depending on which assets are relevant to the allocation of costs. For example, the value of retail assets is not relevant to the allocation of costs that relate to generation and network services.

3. **Energy consumption** is applied when the underlying transaction has a causal correlation to the consumption of energy e.g. energy trading. It is commonly used to allocate costs to a particular location. Energy consumption is determined by the ratio of the energy consumed in a town to the total value of energy consumed across the whole or part of Horizon Power's operating region, depending on which locations are relevant to the allocation of costs. For example, some services are not provided in the *Pilbara region*.
4. **Full time staff equivalents (FTE)**: allocation on an FTE basis is applied when the underlying transaction has a causal correlation to the consumption of staff/labour, e.g. property and facilities, and fleet. FTE is determined by the ratio of FTE within a specific business segment to the total of some or all FTEs, depending on which FTEs are relevant to the allocation of costs.
5. **Customer numbers**: allocation on a customer number basis is applied when the underlying transaction has a causal correlation to the number of customers, e.g. metering. Customer numbers are determined by the ratio of the number of customers within a specific business segment to the total number of customers.
6. **Corporate three factor method**: allocation using the corporate three factor method is applied when there is no causal correlation between the underlying transaction and the consumption of staff/labour or the service of building, maintaining and operating assets, e.g. commercial support. The corporate three factor method for allocating costs and revenue to a location is an equal weighting of asset value, revenue and FTEs, and then allocating costs and revenue to a function is an equal weighting of asset value, a fixed component and FTEs. As appropriate, the corporate three factor method may allocate costs and revenues across some or all locations and across some or all functions.

9.5.2 System control and dispatch shared costs (causal correlation)

System control and dispatch shared costs include costs for:

- network operations in the *Pilbara region*
- system and network operations in regional Western Australia, excluding the *Pilbara region*
- ISO functions in the *Pilbara region*
- generation dispatch functions for Horizon Power's retail business in the *Pilbara region*.

A detailed activity based costing exercise was undertaken in March 2019 to determine the most appropriate allocation of costs to each of these functions.

9.5.3 Corporate shared costs (causal correlation)

Horizon Power's corporate shared costs include common or shared functions that support all parts of the business, but that are not directly attributed or indirectly allocated to specific functions within the works program, e.g. Finance, Technology, Human Resources and General Counsel.

Horizon Power allocates corporate shared costs to the business segments using the method that most appropriately reflects the causal correlation of the underlying transaction. The most common causal correlation methods are as follows:

1. **Full time staff equivalents (FTE)**: allocation on an FTE basis is applied when the underlying transaction has a causal correlation to the consumption of staff/labour, e.g. human resources and technology. FTE is determined by the ratio of FTE within a specific business segment to the total of some or all FTEs, depending on which FTEs are relevant to the allocation of costs.
2. **Asset value**: allocation on an asset value basis is applied when the underlying transaction has a causal correlation to Horizon Power's principal service of building, maintaining and operating assets, e.g. health and safety. Asset value is determined by the ratios of the asset value in the business segment to the total value of assets.
3. **Corporate three factor method**: allocation using the corporate three factor method is applied when there is no causal correlation between the underlying transaction and the consumption of staff/labour or the service of building, maintaining and operating assets, e.g. health and safety. The corporate three factor method for allocating costs and revenue to a location is an equal weighting of asset value, revenue and FTEs, and then allocating costs and revenue to a function is an equal weighting of asset value, a fixed component and FTEs.

9.5.4 Indirect revenue (causal correlation)

Horizon Power's indirect revenue includes:

- proceeds from the disposal of network planning and operations and corporate-related fixed assets, e.g. information and communication technology
- other income, e.g. interest and discounts received.

Horizon Power allocates indirect revenue to the business segment using the method that most appropriately reflects the causal correlation of the underlying transaction (refer section 9.5.3).

10. OUR BALANCE SHEETS

Horizon Power's inception-to-date assets and liabilities are allocated to business services and segments based on the substance (and not the legal form) of the underlying transactions. This is typically identified via the correlating cost or revenue items and attributed/allocated accordingly (refer section 9).

Consistent with this, assets and liabilities that cannot be directly attributed to business services and/or segments are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction (refer section 9.5).

Please refer to Appendix D for a more detailed list of assets and liabilities, and the allocation method applied.

11. REGULATORY ADJUSTMENTS

When preparing the annual regulatory financial statements for the *Horizon Power Pilbara Network Business*, Horizon Power adjusts the audited statutory financial statements (base accounts) for differences in:

- accounting policies – differences between the statutory (i.e. Australian accounting standards) and regulatory accounting policies (refer section 11.1)
- accounting disclosures – differences between the statutory (i.e. Australian accounting standards) and regulatory accounting disclosures (refer section 11.2)
- capital expenditure/additions – differences between the statutory (i.e. Australian accounting standards) and regulatory (i.e. regulated capital base) capital expenditure/additions (refer section 11.3).

Any tax equivalents associated with the above is also adjusted for, using the tax rates enacted or substantially enacted as at the reporting date.

The remainder of this section provides an overview of Horizon Power's regulatory adjustments.

11.1 Our accounting policy adjustments

Horizon Power makes adjustments to its trial balance to prepare regulatory financial statements where the regulatory accounting policies differ to those used to prepare the audited statutory financial statements. Horizon Power currently makes the following regulatory adjustments for accounting policies.

11.1.1 Contributions

Regulatory financial statements – all *contributions* received in the reporting period are recognised as revenue in Horizon Power's regulatory profit and loss account.

Statutory financial statements – *contributions* received in the reporting period are recognised as revenue in Horizon Power's statutory profit and loss account only when the capital works for which the *contribution* relates has been energised/connected to the network. Until then, *contributions* are deferred to the statutory balance sheet. This is in compliance with *AASB Interpretation 18 Transfers of Assets from Customers*.

As a result, regulatory adjustments are required for the following:

- restate *contributions* in the regulatory profit and loss account for *contributions* received in the reporting period but which were deferred in the statutory balance sheet (and hence not recognised in the statutory profit and loss account)
- remove deferred income (for *capital contributions* only) from the regulatory balance sheet which have now been recognised in the regulatory profit and loss account.

11.1.2 Borrowing costs

Regulatory financial statements – all borrowing costs are expensed to Horizon Power's regulatory profit and loss account and hence, excluded from recovery through network tariffs/fees.[1]

Statutory financial statements – all borrowing costs are expensed to Horizon Power's statutory profit and loss account unless they are directly attributable to the acquisition, construction or production of qualifying assets.[2] In this instance, borrowing costs are capitalised to the statutory balance sheet. This is in compliance with *AASB 123 Borrowing Costs*.

As a result, regulatory adjustments are required for the following:

- restate borrowing costs in the regulatory profit and loss account for those which were capitalised to the statutory balance sheet (and hence not recognised in the statutory profit and loss account)
- remove capitalised borrowing costs from regulatory capital additions which have now been recognised in the regulatory profit and loss account
- remove capitalised borrowing costs from property, plant and equipment, and intangible assets in the regulatory balance sheet which have now been recognised in the regulatory profit and loss account.

11.2 Our accounting disclosure adjustments

Horizon Power currently makes the following regulatory adjustments for accounting disclosures:

11.2.1 Depreciation

Regulatory financial statements – unregulated fleet depreciation is recognised as operating expenditure costs in Horizon Power's regulatory profit and loss account. This is in line with the forecast assumptions and expenditure disclosures in Horizon Power's pricing methodology.

Statutory financial statements – unregulated fleet depreciation is recognised as depreciation and amortisation in Horizon Power's statutory profit and loss account. This is in compliance with *AASB 116 Property, Plant and Equipment*.

As a result, a regulatory adjustment is required for the following:

- transfer unregulated fleet depreciation to operating expenditure costs in the regulatory profit and loss account which were recognised as depreciation and amortisation in the statutory profit and loss account.

This adjustment (including the adjustment amount) is authorised by the Manager, Finance.

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[1] This is because Horizon Power's revenues already include a return on capital component (calculated as the sum of the Regulatory Asset Base multiplied by the weighted average cost of capital).

[2] Qualifying assets are defined as assets that necessarily take a substantial period of time to be ready for their intended use.

11.3 Our regulated capital base adjustments

There are currently no regulatory adjustments to the regulated capital base for the *Horizon Power Pilbara Network Business*.

12. MAINTENANCE OF RECORDS

Horizon Power maintains accounting records and transactions in accordance with:

- Board approved policies and supporting frameworks, guidelines and/or standards (as relevant)
- Australian accounting standards
- other legislative and regulatory requirements.

These records and transactions include (but are not limited to), the financial system (including the account code structure within), account reconciliations, subsidiary ledger systems and supports, invoices, supporting documentation (e.g. submissions, correspondence letters/memos, minutes from Board meetings) and work papers (e.g. calculation models/spreadsheet). Horizon Power's accounting records and transactions are made available to the external auditors for the purpose of the annual:

- audit of the statutory financial statements
- review of the regulatory financial statements.

13. REFERENCES

The following material is required and should be read in conjunction with this document:

LEGAL REFERENCES:	Pilbara Networks Access Code 2020
STANDARD & GUIDELINES:	
RELATED POLICIES AND OTHER DOCUMENTS:	Capitalisation Policy Contributions Policy

APPENDIX A: Our cost allocation method

A.1 Operations expenditure

Operations expenditure includes costs associated with operating network and generation assets across Horizon Power's system – in the *Pilbara region* and in regional Western Australia, excluding the *Pilbara region*. Where this expenditure has not been capitalised and **cannot be directly attributed** to a location and/or function and/or category of service, it is allocated as set out in the following table, other than for costs relating to the Pilbara (location) network (function) that are for providing non-*target revenue* services. The allocation occurs in three steps – the operations expenditure is allocated to the location, then the function and then, where required, a category of service.

The costs for providing non-*target revenue* services are derived from the revenue for those services. They are deducted from the costs for providing Pilbara network services by allocating them to the other Pilbara network cost pools (other than transmission and ISO) based on asset value.

Table A. 1: Operations expenditure allocation

Operations expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
General Manager	Direct costs for Operations Division	Direct costs for Operations Division	Asset value
Head of Power Systems	Asset value, excluding retail and corporate assets	Asset value, excluding retail and corporate assets	Asset value
Capacity management support	Asset value, excluding retail and corporate assets	Asset value, excluding retail and corporate assets	Asset value
Engineering services	Asset value, excluding retail and corporate assets	Asset value, excluding retail and corporate assets	Asset value
Asset management support	Asset value, excluding retail and corporate assets	Asset value, excluding retail and corporate assets	Asset value
Pilbara – Manager grid network	Direct costs for Pilbara interconnected network	Direct costs for Pilbara interconnected network	Asset value
Network assets	Directly attributed	Directly attributed	Asset value
District management, works delivery	Directly attributed	Asset value, excluding retail and corporate assets	Asset value
Asset management	Directly attributed	Asset value, excluding retail and corporate assets	Asset value

Operations expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Horizon Power Control Centre	Activity based costing	Activity based costing	Asset value, excluding streetlighting and metering
Commercial operations – Pilbara	Asset value, Pilbara	Functional corporate 3 factor, excluding retail, Pilbara	Asset value
Commercial operations – other locations	Directly attributed	Functional corporate 3 factor, excluding retail, for relevant location	Not applicable
Property and facilities, fleet – Pilbara	Directly attributed	FTEs	Asset value
Property and facilities, fleet – other locations	Directly attributed	FTEs	Not applicable
NIS Generation – Manager	Direct costs for NIS Generation Division	Directly attributed	Not applicable
NIS Generation – generation asset / power supply	Directly attributed	Directly attributed	Not applicable
NIS Generation – generation management – regions other than the Pilbara	Directly attributed	Directly attributed	Not applicable

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

A.2 Commercial & Business Development expenditure

Commercial and Business Development expenditure includes costs associated with business development, major projects and integrated resource planning across Horizon Power's system – in the *Pilbara region* and in regional Western Australia, excluding the *Pilbara region*. Where this expenditure has not been capitalised and **cannot be directly attributed** to a location and/or function and/or category of service, it is allocated as set out in the following table.

Table A. 2: Commercial and business development expenditure allocation

Commercial and business development expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
General Manager	Direct costs for Commercial and Business Development Division	Direct costs for Commercial and Business Development Division	Asset value (excluding metering and streetlighting)
Programs & delivery	Energy consumption, excluding Pilbara	Estimated split between retail and generation	Not applicable
Business Developments Commercial	Locational corporate 3 factor	Estimated split between retail and generation	Not applicable
Energy trading – Pilbara interconnected network	Energy consumption, Pilbara interconnected network	Estimated split between retail and generation	Not applicable
Energy trading – other locations	Energy consumption, excluding Pilbara interconnected network	Estimated split between retail and generation	Not applicable
Major projects – network	Based on project(s)	Asset value excluding retail and corporate	Asset value (excluding metering and streetlighting)
Major projects – generation	Based on project(s)	Directly attributed	Not applicable
Infrastructure projects	Based on project(s)	Asset value	Asset value (excluding metering and streetlighting)
Integrated resource planning	Locational corporate 3 factor	Asset value, excluding retail and corporate assets	Asset value (excluding metering and streetlighting)
Stand alone power supplies	Energy consumption, excluding Pilbara interconnected network	Functional corporate 3 factor, excluding Pilbara interconnected network	Not applicable

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

A.3 Customer Experience expenditure

Customer Experience expenditure includes functions that support customers in the *Pilbara region* and in regional Western Australia, excluding the *Pilbara region*. Where this expenditure has not been capitalised and **cannot be directly attributed** to a location and/or function and/or category of service, it is allocated as set out in the following table.

Table A. 3: Customer Experience expenditure allocation

Customer Experience expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
General Manager – Customer Experience	Direct costs for the Customer Experience Division	Direct costs for the Customer Experience Division	Direct costs for the Customer Experience Division
Customer services – Manager	Customer numbers	Direct costs of Customer services	Direct costs of Customer services
Customer services – Retail services	Customer numbers	Directly attributed	Not applicable
Customer services – Call centre	Customer numbers	Calls to call centre	Directly attributed – distribution LV
Customer services – Customer processes	Customer numbers	Estimated split (10% distribution, 90% retail)	Directly attributed – distribution LV
Customer services – Metering	Customer numbers	Directly attributed	Directly attributed - metering
Customer Solutions	Energy consumption, excluding Pilbara interconnected network	Functional corporate 3 factor, excluding Pilbara interconnected network	Not applicable
Marketing & Product Development	Locational corporate 3 factor	Functional corporate 3 factor, retail and generation only	Not applicable
Retail and Engagement – Management	Direct costs of Retail and Engagement. If no direct costs, by customer numbers	Directly attributed	Not applicable
Retail and Community Manager – locational specific	Direct costs of Retail and Engagement, by region. If no direct costs, by customer numbers	Directly attributed	Not applicable
Retail and Engagement – locational specific	Directly attributed	Directly attributed	Not applicable

Notes:

1. Where costs are allocated on the basis of asset value:
    a. it is on the basis of the Written Down Value of assets
    b. for allocations by location and function, it is on the basis of the asset values in the financial accounts

c. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

2. Where costs are allocated on the basis of customer numbers, it is on the basis of the number of active accounts.

A.4 Corporate expenditure

Corporate expenditure includes common or shared functions that support all parts of the business – in the *Pilbara region* and in regional Western Australia, excluding the *Pilbara region*. Where this expenditure has not been capitalised and **cannot be directly attributed** to a location and/or function and/or category of service, it is allocated as set out in the following table.

Table A. 4: Corporate expenditure allocation

Corporate expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Office of the CEO	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
HP Board	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Legal & Risk	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Employee Experience – General Manager	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Human Resources; Learning & Development; Reconciliation	FTEs	FTEs	Asset value (excluding metering and streetlighting)
Health and Safety; Inspectorate support costs	Direct inspectorate costs	Asset value, excluding retail and corporate assets	Asset value (excluding metering and streetlighting)
Inspectorate costs – Pilbara region	Asset value, excluding retail and corporate assets	Asset value, excluding retail and corporate assets	Asset value (excluding metering and streetlighting)
Inspectorate costs – other locations	Directly attributed	Asset value, excluding retail and corporate assets	Not applicable
Finance & Corporate Services – General Manager	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Finance, Corporate Financial Costs; Corporate Program Office	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)

Corporate expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Planning & pricing	Energy consumption, excluding Pilbara interconnected network	Estimated split	Not applicable
Property & facilities, Fleet services	FTEs	FTEs	Asset value (excluding metering and streetlighting)
Procurement	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Environmental sustainability	Asset value, excluding retail and corporate assets	Asset value, excluding retail and corporate assets	Asset value (excluding metering and streetlighting)
Strategy	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Network Regulation & Open Access	Locational corporate 3 factor, Pilbara interconnected network only	Functional corporate 3 factor, Pilbara interconnected network only	Asset value (excluding metering and streetlighting)
Corporate Projects & Risk Treatment Plans	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
External Affairs & Communications – General Manager	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Communications, Stakeholder Relations	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Remote Communities	Energy consumption, excluding Pilbara interconnected network	Functional corporate 3 factor, excluding Pilbara interconnected network	Not applicable
Technology & Digital Transformation – General Manager	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Operational Technology (SCADA)	Activity Based Costing	Activity Based Costing	Activity Based Costing
Operational Technology Implementation	Activity Based Costing	Activity Based Costing	Activity Based Costing
Information Technology	FTEs	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)

Corporate expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Digital Business Delivery	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Operational technology (metering)	Customer numbers	Directly attributed	Directly attributed - metering

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

APPENDIX B: Our capital expenditure allocation method

B.1 Direct attribution

Capital expenditure is directly identified and attributed to a location, function and, where applicable, category of service, based on the responsibility centres and activity codes of the parent capital projects underlying the transactions.

The responsibility centre is also used to directly attribute capital expenditure to some corporate shared cost categories (business support) (refer table B.2).

The capital expenditure that is directly attributed includes a share of operating and maintenance expenditure as per Horizon Power's capitalisation policy.

B.2 Indirect allocation

Capital expenditure that **cannot be directly attributed** to a location and/or function and/or category of service is allocated using the method that most appropriately reflects the causal correlation of the underlying transaction (refer section 9.5.2).

Tables B.1, B.2 and B.3 list Horizon Power's indirect capital expenditure, and the allocation method applied. The capital expenditure that is indirectly allocated may include a share of operating and maintenance expenditure as per Horizon Power's capitalisation policy.

Table B. 1: Operations capital expenditure allocation

Information Technology Capital Expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Network assets	Directly attributed	Directly attributed	Asset value
Non-system assets	Directly attributed	Directly attributed	Asset value (excluding metering and streetlighting)

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

Table B. 2: Information technology capital expenditure allocation

Information Technology Capital Expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Information Technology (strategic, business, infrastructure)[1]	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

Table B. 3: Corporate shared (business support) capital expenditure allocation

Corporate Shared (Business Support) Capital Expenditure	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Corporate Real Estate	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)
Other Plant and Equipment[2]	Locational corporate 3 factor	Functional corporate 3 factor	Asset value (excluding metering and streetlighting)

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

APPENDIX C: Our revenue allocation method

C.1 Target revenue services

Horizon Power's *target revenue* services are explained in section 8.1.1. Revenue from these services is allocated as follows:

Table C. 1: Target revenue services

Revenue –target revenue services	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Network – Fixed	Directly attributed	Directly attributed	Cost pools
Network – Variable	Directly attributed	Directly attributed	Cost pools
Wheeling	Directly attributed	Directly attributed	Not applicable
Connections	Directly attributed	Directly attributed	Directly attributed
Reconnections / disconnections	Directly attributed	Directly attributed	Directly attributed
Sales Billing Fees[1]	Directly attributed	Directly attributed	Directly attributed

1 Includes revenue from, for example, reminder notices, special meter reads

C.2 Non-target revenue services

Horizon Power's non-*target revenue* services are explained in section 8.1.2. Revenue from these services is allocated as follows:

Table C. 2: Non-target revenue services

Revenue – non-target revenue services	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
External/contract works	Directly attributed	Directly attributed	Directly attributed
Sales Billing Fees	Directly attributed	Directly attributed	Directly attributed
ISO functions	Directly attributed	Directly attributed	Directly attributed

C.3 Contributions (regulated)

Horizon Power's *contributions* are explained in section 8.1.3. They are allocated as follows:

Table C. 3: Contributions

Revenue – contributions	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Developer & capital contributions	Directly attributed	Directly attributed	Directly attributed
Deferred customer funded	Directly attributed	Directly attributed	Directly attributed
Gifted assets	Directly attributed	Directly attributed	Directly attributed

C.4 Proceeds from sale of assets

Proceeds are generated from the disposal of Horizon Power's and are allocated as follows:

Table C. 4: Proceeds from sale of assets

Proceeds from sale of assets	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Fixed asset gain on disposal	Where not directly attributed, relevant asset value	Where not directly attributed, relevant asset value	Where not directly attributed, relevant asset value

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

C.5 Other services

Horizon Power's other services are explained in section 8.3. Revenue from these services is allocated as follows:

Table C. 5: Other services

Other services	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Electricity sales	Directly attributed	Directly attributed	Directly attributed
Gas	Directly attributed	Directly attributed	Directly attributed
Carbon	Directly attributed	Directly attributed	Directly attributed
Unmetered	Directly attributed	Directly attributed	Directly attributed
Discount, Bonus & Other	Directly attributed	Directly attributed	Directly attributed
Other account establishment fees	Directly attributed	Directly attributed	Directly attributed
RE Buy-Back Sys	Directly attributed	Directly attributed	Directly attributed
Fuel Tax Credits	Directly attributed	Directly attributed	Directly attributed
Tariff Equalisation Fund	Directly attributed	Directly attributed	Directly attributed
CSO Revenue	Directly attributed	Directly attributed	Directly attributed
Grant Funding	Directly attributed	Directly attributed	Directly attributed
Rebates received	Directly attributed	Directly attributed	Directly attributed
Hedge gains	Directly attributed	Directly attributed	Directly attributed
Joint ventures	Directly attributed	Directly attributed	Directly attributed
Green products	Directly attributed	Directly attributed	Directly attributed

C.6 Other income

Other income is generated from services incidental to the core activities of Horizon Power's business and is identified and recognised in line with statutory requirements. It is allocated as follows:

Table C. 6: Other income

Other income	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Interest received	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Non energy	Locational corporate 3 factor	Functional corporate 3 factor	Where applicable, directly attributed

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

APPENDIX D: Our balance sheet allocation method

D.1 Current assets

Where current assets cannot be directly attributed to a location, function and, where required, a category of service, they are allocated as follows:

Table D. 1: Current assets allocation

Current assets	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Cash and cash equivalents	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Trade and other receivables	Revenue	Revenue	Revenue
Bad and doubtful debts	Directly attributed	Directly attributed	Directly attributed
Accrued revenue	Revenue	Revenue	Revenue
Inventory	Value of inventories	Value of inventories	Value of inventories
Prepayments	Asset value or FTE, whichever is the most relevant	Asset value or FTE, whichever is the most relevant	Asset value or FTE, whichever is the most relevant
Derivative Financial Instruments	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

D.2 Non-current assets

Where non-current assets cannot be directly attributed to a location, function and, where required, a category of service, they are allocated as follows:

Table D. 2: Non-current assets allocation

Non-current assets	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Property, Plant and Equipment	Asset value	Asset value	Not applicable
Leases	FTE	FTE	Not applicable

Non-current assets	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Deferred tax assets	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Derivative Financial Instruments	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

D.3 Current liabilities

Where current liabilities cannot be directly attributed to a location, function and, where required, a category of service, they are allocated as follows:

Table D. 3: Current liabilities allocation

Current liabilities	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Trade & Other Payables, and Current Tax Equivalent	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Borrowings	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Deferred income	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Provisions	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Derivative Financial Instruments	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.

D.4 Non-current liabilities

Where non-current liabilities cannot be directly attributed to a location, function and, where required, a category of service, they are allocated as follows:

Table D. 4: Non-current liabilities allocation

Non-current liabilities	Step 1: Location	Step 2: Function	Step 3: Where required, category of service
Borrowings	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Provisions	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Trade and other payables	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable
Deferred tax liabilities	Locational corporate 3 factor	Functional corporate 3 factor	Not applicable

Notes:

Where costs are allocated on the basis of asset value:

1. it is on the basis of the Written Down Value of assets
2. for allocations by location and function, it is on the basis of the asset values in the financial accounts
3. for allocations by category, it is on the basis of the asset values in the capital base roll forward model for the *covered Pilbara network*.