

Attachment D.2  
**Cost Allocation  
Methodology**

SA Water  
**Regulatory Business  
Proposal 2013**





# Cost Allocation Method

(Guidance paper)

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## Document Controls

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## 1. Introduction – Corporate Profile

SA Water is a water utility wholly owned by the South Australian Government that supplies water and waste water services to approximately 1.5 million people in South Australia.

Since the construction of the first reservoir in 1860, SA Water has continually sought new ways to supply water to the ever expanding population of Australia's driest state. Our engineering and operational capabilities ensure we can manage water, wastewater and other water infrastructure assets.

SA Water employs more than 1500 people, supporting a network of over 26 000 km of water mains, 8600km of sewer mains, 30 water, and 24 wastewater treatment plants.

As a government owned entity SA Water also has responsibility for assisting to develop the South Australian water industry. We also undertake work on behalf of the Murray Darling Basin Commission.

SA Water's key regulated activities include:

- Constructing, managing, maintaining and operating water and wastewater networks;
- Testing, treating and transporting water and wastewater;
- Water engineering and internal project management;
- Water quality research and development; and
- Connecting customers to our water and wastewater networks.

SA Water also provides non-regulated water transportation, water quality testing, research and development and water engineering technology services in the competitive market.

## 2. Nature, Scope and Purpose

The Water Industry Bill passed as legislation in Parliament in April 2012, conferring upon the Essential Services Commission of SA (ESCOSA) the role as SA Water's economic regulator. The appointment of ESCOSA has significant implications for the way in which SA Water allocates its costs between direct control, excluded and non-regulated services, necessitating the development of a new regulatory "cost allocation method" (CAM).

The purpose of this document is to set out the proposed Cost Allocation Method to be adopted by SA Water for Regulatory reporting from the commencement of this legislation, and to satisfy the information requirements specified by ESCOSA in its Guidance Paper for the Review of SA Water's Prices: 2013/14 – 2015/16.

Among other things, this Guidance Paper specifies that:

- ESCOSA intends to separate "retail" services into two categories (direct control services and excluded services);
- SA Water's regulatory submission should clearly distinguish between direct control and excluded services;
- In setting drinking water and sewerage prices, ESCOSA will incorporate prudent and efficient capital expenditure that relates only to direct control services;
- It is appropriate to split operating expenditure by:
  - Service (direct control, excluded and non-regulated);
  - Category (water or sewerage); and that
- Where operating expenditure has been allocated (ie. between service, category or area) SA Water should clearly state the basis of any allocations and demonstrate that the split is appropriate.

### **3. Responsibility for the Cost Allocation Method**

SA Water's regulatory CAM is described in this document. We consider that it complies with the requirements of ESCOSA and its Guidance Paper, and all regulatory financial information is prepared in a manner that is consistent with it.

Overall responsibility for the CAM is with the Chief Financial Officer for SA Water. Responsibility for updating, maintaining and applying the CAM will be undertaken by the Costing team within the the Corporate Finance Department of SA Water.

The Costing Team will prepare the annual regulatory financial accounts together with periodic internal reporting on regulatory outcomes, and therefore is best placed both to report on and ensure compliance with the CAM throughout the organisation. The Costing Team will work in close collaboration within other groups across SA Water to achieve this.

## 4. Organisational Structure

In early 2011, a new organisation structure for SA Water was announced that better aligns our business to our stakeholders and ensures a more strategic focus on capital investment, asset management and business efficiency, allowing us to respond to the requirements of regulation.

Operational groups undertake both direct control and excluded services and are split along functional lines. The operational areas are Customer Services, Operations (Water and waste water), Infrastructure Management and Delivery and Water Quality and Environment. In some cases services are provided that are considered non-regulated but no discrete business groups exist to deliver solely non-regulated work.

Business Support groups provide support services to the operational groups and meet the needs of key stakeholders. The organisational structure is described in more detail in the tables below:

**Table 1: SA Water's operational groups**

Operational group	Functions
Customer Services	<ul style="list-style-type: none"> <li>• Customer liaison and service provided through Customer Service Centre</li> <li>• Customer technical services</li> <li>• Land development and connections</li> <li>• Billing and collections</li> </ul>
Operations	<ul style="list-style-type: none"> <li>• Operation and maintenance of water and wastewater assets including preventative and corrective maintenance</li> <li>• Operation of the Adelaide Desalination Plant</li> </ul>
Water Quality and Environment	<ul style="list-style-type: none"> <li>• Water quality services delivered through research and laboratory services</li> <li>• Environmental management</li> <li>• Management of land and natural assets (including reservoirs)</li> </ul>
Infrastructure Management and Delivery	<ul style="list-style-type: none"> <li>• Infrastructure and asset planning</li> <li>• Engineering (including design services)</li> <li>• Project delivery</li> </ul>

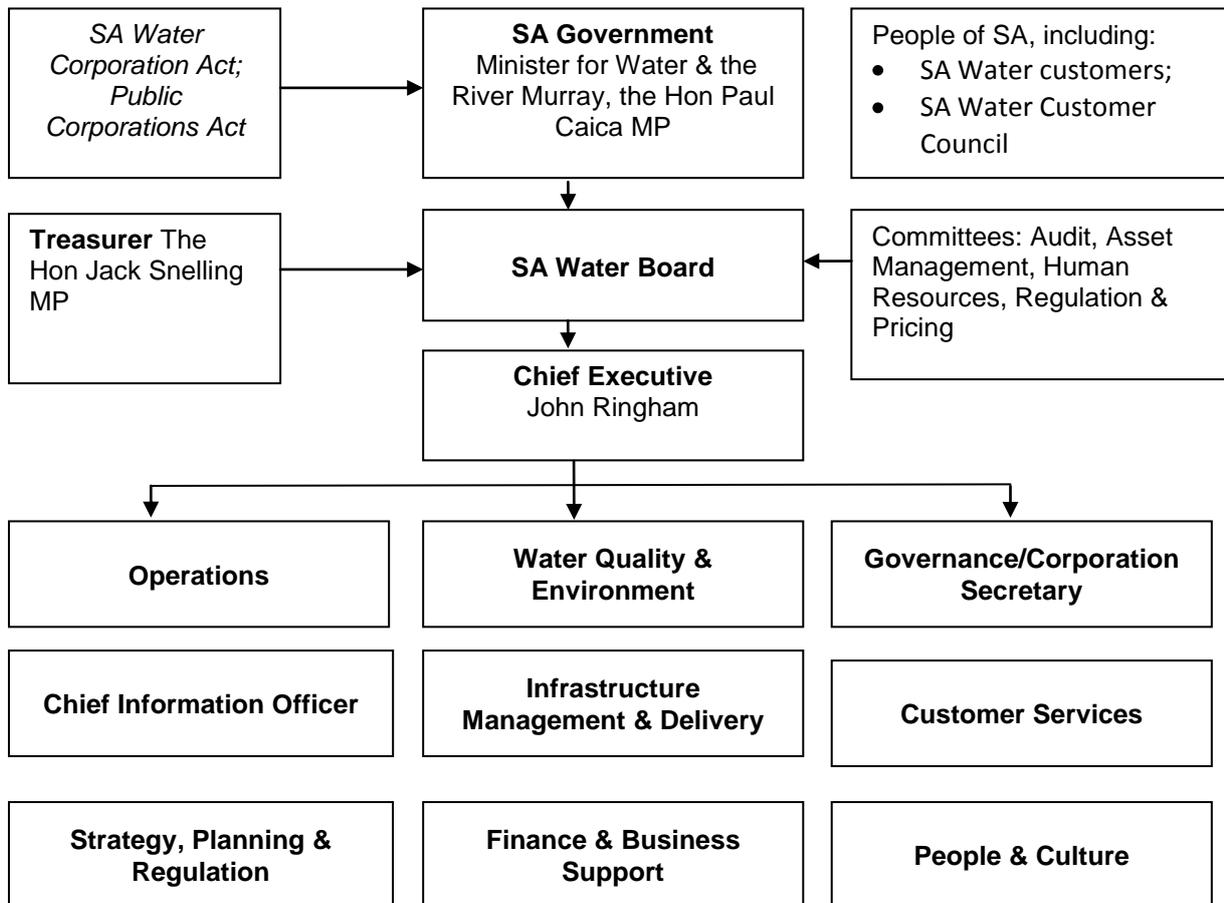
**Table 2: SA Water's Business Support groups**

<b>Support group</b>	<b>Functions</b>
Strategy, Planning & Regulation	<ul style="list-style-type: none"> <li>• Regulation</li> <li>• Planning</li> <li>• Water licence management</li> <li>• External communications</li> </ul>
Finance and Business Support	<ul style="list-style-type: none"> <li>• Finance</li> <li>• Procurement</li> <li>• Accommodation</li> <li>• Banking</li> <li>• Other business support</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Insurance</li> <li>• Legal</li> <li>• Compliance &amp; Policy</li> <li>• Director support</li> <li>• Ministerial liaison</li> </ul>
Information Services	<ul style="list-style-type: none"> <li>• ICT operations</li> <li>• Software</li> <li>• Other information support</li> </ul>
People and Culture	<ul style="list-style-type: none"> <li>• Occupational health and safety</li> <li>• Organisational development</li> <li>• Human resource management</li> </ul>

Ultimate governance for SA Water is provided through a Chairman and Board of Directors as depicted in Figure 1.

# Organisation Chart – as at 30 June 2012

Figure 1: SA Water organisation and governance structure



## 5. SA Water's Services

ESCOSA has stipulated that SA Water's services will fall into the following categories:

- Direct control
- Excluded
- Non-regulated

Our cost allocation principles and methodology have therefore considered the direct attribution to, or shared allocation of costs between direct control services, excluded services and non-regulated services.

Direct control services include the provision of water and wastewater infrastructure, operation of that infrastructure and maintenance of the system.

This includes services such as asset refurbishment, preventative and corrective maintenance, management of water quality, research into quality and environmental issues and management of water reserves. These services are provided to all customers (residential and non-residential) connected to a number of discrete water and wastewater networks, for which water and sewerage tariffs apply.

Excluded Services are retail services as defined in Clause 4 of the Water Industry Act (2012) and generally relate to the provision of water and wastewater services that are provided to specific customers. The costs of such services are recovered through specific charges to customers (or potential customers) rather than being costs paid for by all customers through tariffs. Examples are single customer connection fees, meter relocation, wastewater metering, recycled water audits and developer enquiries.

SA Water charges for these services, which may apply to specific customers or small groups of customers, on a fee-for-service basis

Non-regulated Services are provided by operational units of SA Water that do not satisfy the definition of a retail service within Clause 4 of the Water Industry Act (2012). Examples are laboratory testing and project management services provided on a commercial basis, third party water transportation services, maintenance of the River Murray lock system on behalf of the Murray Darling Basin Authority and other services that are provided on behalf of the Government of South Australia such as Emergency Functional Services or the administration of the Save the River Murray Levy.

## 6. General Cost Allocation Principles and Policies

SA Water will employ a full absorption methodology for the allocation of costs. That is, all direct and indirect costs of the organisation will be allocated to identify the total cost of undertaking its activities.

For operational groups, SA Water utilises the Maximo Asset Management system to create work orders to capture the direct cost of its operational activities. Each work order is associated with a particular general ledger activity code and location.

SA Water also uses the Mincom Ellipse application for accounting purposes wherein general ledger accounts are used to collect cost inputs (eg. labour, chemicals, materials, subcontract services, etc.). They are assigned to each cost account and provide an input view of costs which support much of the internal and statutory reporting within SA Water. As transactions are processed they are also assigned to responsibility centres (ie. locations or departments) and activities as discussed above.

The costs of support groups are assigned directly to the general ledger and collected at a functional level.

This process provides a cost centre and input cost view of the activities of SA Water and, for operating expenses, an activity view (eg. Water Preventative Maintenance). For capital expenditure, costs are collected in work orders and ultimately capitalised to an asset in the asset register.

### 6.1 Related Party Costs

SA Water is wholly owned by the South Australian Government. Transactions with other South Australian Government owned organisations are conducted at arm's length.

As part of the South Australian Government, SA Water has responsibility for administering certain items on behalf of the government. As an example the Corporation is responsible for administering the Save the River Murray levy. The River Murray levy is billed and collected on behalf of Government, but the monies collected through the levy are not controlled by the Corporation. SA Water is also responsible for the administration of Local Government pensioner concession payments. An amount is received from SA Government which is used to make payments to Local Government Councils. The monies received by SA Water are passed through to Local Government Councils and are not controlled by the Corporation.

The Corporation is required under its charter to provide a number of non-commercial services to the community on behalf of the Government. SA Water is compensated for the non-commercial component of these services through Community Service Obligations (CSO) payments from the Government.

The main CSOs are for direct control services and relate to under-recovery of country water and wastewater services and the provision of water and wastewater concessions to certain properties (e.g. charities, churches and public schools). The CSO revenue is recognised as the services are provided.

We have reviewed these services and if deemed to represent excluded or non-regulated, costs have been allocated accordingly.

## **6.2 Record Maintenance**

SA Water is currently finalising its preparations for regulation and recognises that some changes to its internal management systems are required to streamline the preparation of regulatory information.

As described earlier, we track all costs and revenue through our corporate information systems and general ledger and are able to review costs by:

- Input cost (eg labour, electricity, services);
- Location and business unit;
- Activity (eg water infrastructure maintenance, wastewater infrastructure maintenance); and
- Services delivered.

Our audited statutory financial accounts form the basis of the initial regulatory business proposal, with costs allocated as described in this document. This CAM and the regulatory accounts presented in SA Water's regulatory business proposal have also been subjected to an independent assurance audit, with the Auditor's report provided as an attachment to SA Water's regulatory business proposal.

SA Water intends to prepare regulatory accounts using the same rigor that applies to the preparation of statutory accounts, with working papers prepared that demonstrate costs are allocated in-line with this approved CAM.

## 7. Cost Allocation by Service (Direct control / Excluded / Non-regulated)

### 7.1 Directly Attributed Costs

Directly attributed costs relate to those activities and functions within SA Water that can be considered directly associated with the operational provision of SA Water's core revenue-earning direct control, excluded and non-regulated services – either through an activity-based, or alternative costing method.

While SA Water's costing systems track costs by activity (ie. corrective maintenance, water operations, etc.) and can be used to determine the cost of activities associated with direct control services, at this stage in their development the costing systems do not specifically capture costs for all of the excluded and non-regulated services. The method by which costs are allocated to excluded and non-regulated services is described in section 7.2 of this document.

#### 7.1.1 Activity-based view

The general principle used to identify cost model elements is that only avoidable costs are charged to a work order/asset. For example, the cost of maintaining a depot is incurred regardless of whether an asset is replaced or not. Therefore the cost of maintaining the asset does not include an overhead for maintaining the depot. However, the material associated with replacing the asset could have been avoided if the work was not done. Hence, the cost of replacing the asset does include material costs.

#### **Labour and Related Expenditure**

Labour and related expenditure includes costs associated with internal resources and labour contractors (as opposed to work that is outsourced to contractors).

The direct cost of labour charged to a Maximo work order is based on the employee's actual pay rate. This includes the normal and overtime hours worked and any relevant allowances.

Some allowances such as "on call" are costed to work orders based on business rules.

All field and workshop time is reported in Maximo. This includes both discretionary and non-discretionary costs such as leave (sick, annual and long service). Overhead work orders are costed at the same rate as chargeable work orders.

External labour contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. These are also costed directly to work orders.

## **Materials**

Materials are directly allocated to work orders at cost from SA Water's inventory systems or via receipts against a purchase order. Chemical costs are charged against a standing Maximo work order associated with a site or process area for treatment.

Electricity Costs are journalled from a separate Electricity Management System to Maximo work orders that relate specifically to a site or process area.

## **Services**

These include work that is outsourced to contractors and can include entire work packages or the hiring of contractors to deliver specific services in relation to a job (such as hiring of a crane or backhoe operator). Services are directly allocated to orders at cost through receipts against purchase orders.

Costs associated with the management and support of operational business units, as well as the operating costs of light fleet, are not directly allocated to activities and are only allocated through management reporting systems. Accordingly, the activity-based view of costs presented in SA Water's regulatory accounts does not include support cost overhead allocations.

Listed below are the categories of the directly attributed costs that are presented in an activity-based view within SA Water's regulatory accounts:

### **Operations and Maintenance (operating expenditure)**

- Water Operations
- Water Corrective Maintenance
- Water Preventative Maintenance
- Water Other
- Waste Water Operations
- Waste Water Corrective Maintenance
- Waste Water Preventative Maintenance

### **Asset Construction (capital expenditure)**

- Asset Renewal - Other
- Customer Service Improvement
- Environmental Improvement
- IT
- Major & Minor Plant

- Mechanical & Electrical Equipment
- Network Extension
- Network Growth
- Pipe Networks
- Safety
- Service Reliability Management
- Structures
- Treatment Plant Growth
- Water Quality Management
- Water Resource Sustainability
- Critical Support - Other

### 7.1.2 Other directly-attributed costs

In addition to the activity-based view of costs described above, SA Water incurs other costs that can be directly attributed to the provision of its core, revenue-earning activities through alternative costing methods. Listed below are the categories of such costs that can be directly attributed and are presented as part of SA Water's regulatory business proposal:

#### **Customer Services**

- Customer Service Centre
- Land Development & Connections
- Customer Technical Services
- Billing & Collection

#### **Infrastructure Management and Delivery**

- Asset Management
- Engineering (including Design)
- Infrastructure / Project Delivery

#### **Operations and Maintenance**

- Adelaide Desalination Plant (ADP) Operations

## Water Quality and Environment

- Environmental Management
- Treatment Management
- Laboratory Services
- Land & Natural Assets
- Research & Development

### 7.2 Allocating Directly Attributed Costs to Excluded and Non-regulated Services

The services identified as excluded and non-regulated represent a small portion of SA Water's total business (less than 10% of all revenue). As a consequence, SA Water's costing systems have not evolved at this stage to enable direct capture of the cost of each excluded and non-regulated service.

However, for purposes of business analysis, pricing and management control, cost calculation and allocation processes have been developed to assist in service delivery planning for these services. The table below summarises the nature of these calculations and how they have been used to determine an appropriate method for allocation of costs between services.

**Table 3: Cost calculations and cost allocation processes (excluded, non-regulated services)**

Service	Cost Calculation	Allocation Process
Miscellaneous Minor Services	Standard costs <sup>1</sup> are calculated and used for pricing purposes	Annual planning process identifies number of units to be completed and planned margins which are used to calculate cost based on revenue achieved
Developer Enquiries	Standard costs are calculated and used for pricing purposes	
Connections	Standard costs are calculated and used for pricing purposes	
Wastewater & Recycled Water Audits	Standard costs are calculated and used for pricing purposes	
Commercial Property Leases	Dedicated cost centre exists to capture costs	Costs from this cost centre fully allocated to non-regulated

<sup>1</sup> SA Water undertakes regular review of the cost of performing these services and establishes a standard unit cost for each for service representing the normal cost of labour, contractor services and materials to complete each task.

<b>Service</b>	<b>Cost Calculation</b>	<b>Allocation Process</b>
Laboratory Services	Internal cost allocation process to ring fence direct control business	Laboratory work predominately relates to the provision of direct control services and is required to support the Operations business unit.  The unit also earns some external revenue.  Costs are allocated to non-regulated services based on an assessment of work conducted and costs associated with that work, including staff required to support external work
R & D Services	Internal Cost allocation process to ring fence direct control business	Research and development services predominately relate to direct control services and required to support the Operations business unit.  The unit also earns some external revenue.  Costs are allocated to non-regulated services based on an assessment of work conducted and costs associated with that work, including staff required to support external work
Project Management and External work	No costs captured	Costs are allocated based on a share of external revenue earned by operations unit
Third Party Water Transport	No costs captured	Costs are allocated based on a share of external revenue earned by operations unit

### 7.3 Allocated (Support) Costs

Allocated costs, also referred to as support costs, are those costs incurred by support groups within SA Water whose purpose is to support operational groups (groups that primarily incur directly-allocated costs). Examples of supportgroups include Strategic Planning and Regulation, Finance and Business Support, Procurement, Governance, Information Services and People and Culture.

Additionally, there are functions within operational groups that provide business support services. The costs associated with these functions are also recognised as supportcosts, and primarily relate to the senior management and administrative functions within the Customer Services, Water Quality & Environment, and Infrastructure Management & Delivery groups.

SA Water does not charge support costs directly to work orders for regulatory purposes. The support costs incurred by each group are allocated between direct control services, excluded services and non-regulated services based on the type of service provided.

For many support allocations there is a clear basis for this allocation. For example, procurement costs are allocated on the basis of the materials/services used by a service or activity. Many of the costs associated with human resource management are allocated using the cost of labour within a group. Ideally, Full Time Equivalent (FTE) count would be used but given we do not have specific business units dedicated to excluded or non-regulated services we do not have FTE counts by regulated segment, making labour cost an ideal substitute allocator.

For some services, however, there is no clear allocator and the costs are allocated on the basis of total revenue or a weighted average.

From a regulatory accounting perspective, all support costs are treated as an operating expense to be allocated between direct control, excluded and non-regulated services. This methodology reflects the approach agreed between SA Water and the Essential Services Commission of South Australia (ESCOSA).

#### 7.4 Bases for Allocation of Costs

Support and directly-attributed costs are allocated to either direct control, excluded or non-regulated services on the bases detailed in the following tables.

**Table 4: Basis for allocation of costs (Strategy, Planning & Regulation)**

<b>Strategy Planning and Regulation (SPAR)</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Head of Strategy, Planning and Regulation	NC	Office of the Head of Strategy, Planning and Regulation	Direct control Excluded Non-regulated	No ideal causal allocator: Total revenue per service used as indicator of activity to allocate costs across all services
External Affairs	NC	Management of External Relationships and corporate profile	Direct control Excluded	Total revenue per activity
Systems Planning	C	Planning function for overall development of Water and Wastewater network	Direct control	Fully allocated to direct control activity

Regulation	C	Relationship management and planning for regulation	Direct control Excluded	Revenue per activity used to allocate costs to the services subject to regulation
Water License Management	C	Management of SA Water's portfolio of water allocations and entitlements (sourced via the River Murray)	Direct control	Total revenue per activity. WQE has its own costs which have been directly allocated
Drought Response Initiatives	C	Specific group to manage and co-ordinate Drought Management activities	Direct control Excluded	Total Revenue per activity

C = Causal, NC = Non Causal

**Table 5: Basis for allocation of costs (Finance)**

<b>Finance</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Accommodation	NC	Management of SA Water commercial property agreements	Direct control Excluded Non-regulated	No ideal causal allocator: Total revenue by segment used as indicator of activity to allocate costs across all segments
Procurement	C	General purchasing function including the cost of establishing and managing supply contracts	Direct control Excluded Non-regulated	Allocated based on the actual cost of materials and services across all services
Bank Facility Fees	NC	Banking facilities provided by the Commonwealth Bank of Australia.	Direct control Excluded Non-regulated	No ideal causal allocator: Total revenue by segment used as indicator of activity to allocate costs across all segments

Other Finance and Business Support	C	Includes CFO and Financial Controller, Accounts Payable and Receivable, Commercial management and reporting, Energy Management and the cost of heavy and light fleet management	Direct control Excluded Non-regulated	Energy services cost is allocated to all services based on energy costs per service.  Remaining costs are allocated using total revenue per segment as an indicator of activity
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C = Causal, NC = Non Causal

**Table 6: Basis for allocation of costs (Governance)**

<b>Governance</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Head of Governance	NC	Office of the Head of Governance  Records Compliance	Direct control Excluded Non-regulated	No ideal causal allocator: Total cost per segment used as indicator of activity to allocate costs across all segments
Insurance	C	Internal audit and controls and cost of insurance premiums and Business Assurance and Risk Management	Direct control Excluded Non-regulated	Actual cost per service
Legal	C	Legal counsel and compliance	Direct control Excluded Non-regulated	Actual cost per service
Ministerial Liaison Office	NC	Relationship with South Australian Government	Direct control Excluded Non-regulated	No ideal causal allocator: Total cost per segment used as indicator of activity to allocate costs across all segments

<b>Governance</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Director Fees	NC	Director's fees and Board costs.	Direct control Excluded Non-regulated	No ideal causal allocator: Total cost per segment used as indicator of activity to allocate costs across all segments

C = Causal, NC = Non Causal

**Table 7: Basis for allocation of costs (Information Services)**

<b>Information Services</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Software	C	Application support	Direct control Excluded Non-regulated	Allocated to all services based on labour cost. Labour cost used as a substitute for FTE
ICT Operations	C	Outsourced contract for ICT services and internal support and contract management including IT Help Desk	Direct control Excluded Non-regulated	Allocated to all services based on labour cost. Labour cost used as a substitute for FTE
Other Information Services	NC	Other information services costs including IS governance and strategy, IS project delivery and information management.	Direct control Excluded Non-regulated	No ideal causal allocator: Total cost per segment used as indicator of activity to allocate costs across all segments

C = Causal, NC = Non Causal

**Table 8: Basis for allocation of costs (People & Culture)**

<b>People and Culture</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Head of People and Culture	N/C	Office of the People and Culture group	Direct control Excluded Non-regulated	No ideal causal allocator: Costs allocated to all services on the basis of labour cost.
OHSW & Support Services	C	Health and Safety services	Direct control Excluded Non-regulated	Services support all business activities and are allocated based on labour cost as a substitute for FTE.
Human Resources	C	Employee relations, industrial relations, performance management	Direct control Excluded Non-regulated	Services support all business activities and are allocated based on labour cost as a substitute for FTE.
Organisational Development	C	Technical and non-technical training and capability development	Direct control Excluded Non-regulated	Services support all business activities and are allocated based on labour cost as a substitute for FTE.

C = Causal, NC = Non Causal

**Table 9: Basis for allocation of costs (Corporate)**

<b>Corporate</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Office of CEO	N/C	Office of CEO	Direct control	Weighted ave of all other allocations
Operational Taxes		Land Tax, Council Rates,	Excluded	Revenue per classification
Other Corporate		Accounting adj (eg reval leave prov to comply with Aust Acctg Standards)	Non-regulated	Revenue per classification

**Table 10: Basis for allocation of costs (Customer Services)**

<b>Customer Services</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Head of Customer Services	NC	Office of the Head of Customer Services group	Direct control Excluded Non-regulated	No ideal causal allocator: Customer Services function supports activities across all customer groups only and is allocated based on revenue.
Customer Service Centre	C	Customer enquiries, questions, complaints,	Direct control Excluded	Customer Services Centre supports direct control and excluded services only and is allocated based on revenue.
Land Developments	C	Provision of water and waste water infrastructure for new allotments, major projects and the coordination of new connections.	Direct control Excluded	Land developments and connections are a direct control and excluded activity and is allocated based on revenue
Customer Technical Services	C	Technical support for SA Water customers	Direct control Excluded	Customer Technical Services supports customers in direct control and excluded activity only and is allocated based on revenue
Billing & Collection	C	Invoicing, receipting and recovery	Direct control Excluded Non-regulated	Billing and Collection supports customers in direct control and excluded activity only and is allocated based on revenue  Water efficiency rebates are fully allocated to Direct Control

**C = Causal, NC = Non Causal**

**Table 11: Basis for allocation of costs (Operations)**

<b>Operations</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Water Operations	C	Operation of water network assets	Direct control Excluded Non-regulated	Allocated across all services using revenue as an indicator of activity
Water Corrective Maintenance	C	Corrective maintenance on water assets	Direct control Non-regulated	Allocated across Direct Control and Non-regulated services using revenue as an indicator of activity
Water Preventive Maintenance	C	Preventive maintenance on water assets	Direct control Non-regulated	Allocated across Direct Control and Non-regulated services using revenue as an indicator of activity
Operations support	C	Resources shared between the operation of both water and wastewater assets	Direct control Non-regulated	Allocated across Direct Control and Non-regulated services using revenue as an indicator of activity
Waste Water Operations	C	Operation of wastewater network assets	Direct control Non-regulated	Allocated across Direct Control and Non-regulated services using revenue as an indicator of activity
Waste Water Corrective Maintenance	C	Corrective maintenance on waste water	Direct control Non-regulated	Allocated across Direct Control and Non-regulated services using revenue as an indicator of activity
Waste Water Preventive Maintenance	C	Preventive maintenance on wastewater assets	Direct control Non-regulated	Allocated across Direct Control and Non-regulated services using revenue as an indicator of activity
ADP Operations	C	Operation of the Adelaide Desalination Plant	Direct control	Allocated to Direct control

**C = Causal, NC = Non Causal**

**Table 12: Basis for allocation of support costs (Water Quality & Environment)**

<b>Water Quality and Environment</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Head of Water Quality and Environment	C	Office of the Head of Water Quality and Environment group	Direct control Non-regulated	Water Quality and Environment labour costs are allocated on the basis of FTE's that support the direct control services provided and other costs according to share of revenue between each service category
Environmental Management	C	Management of the environmental impacts of SA Water's water and wastewater operations, including compliance with EPA requirements	Direct control Non-regulated	Water Quality and Environment labour costs are allocated on the basis of FTE's that support the direct control services provided and other costs according to share of revenue between each service category
Treatment Management	C	Management and operation of treatment plans and water treatment processes	Direct control Non-regulated	Water Quality and Environment labour costs are allocated on the basis of FTE's that support the direct control services provided and other costs according to share of revenue between each service category
Laboratory Services	C	Provision of laboratory testing services, including water and wastewater quality testing services	Direct control Non-regulated	Water Quality and Environment labour costs are allocated on the basis of FTE's that support the direct control services provided and other costs according to share of revenue between each service category

<b>Water Quality and Environment</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Land and Natural Assets	C	Management of the Natural Resources of SA Water and also management of commercial property revenue earned by SA Water from its land assets	Direct control Non-regulated	The Land Management function has been fully allocated to direct control and Property Services to non-regulated
Research and development	C	Research and development services, including research into improving water and wastewater quality and service efficiency	Direct control Non-regulated	Research labour costs are allocated on the basis of FTE's that support the direct control services provided and other costs according to share of revenue between each service category

C = Causal, NC = Non Causal

**Table 13: Basis for allocation of support costs (Infrastructure Management and Delivery)**

<b>Infrastructure Management and Delivery</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Head of Asset Management	C	Office of the Head of Asset Management group	Direct control Excluded Non-regulated	Total revenue per service used as indicator of activity to allocate costs across all services
Asset Management	C	Asset strategy, maintenance planning and renewal planning	Direct control Excluded Non-regulated	Total revenue per service used as indicator of activity to allocate costs across all services.

<b>Infrastructure Management and Delivery</b>				
<b>Cost</b>	<b>C/ NC</b>	<b>Description</b>	<b>Service(s) Allocated to</b>	<b>Basis of Allocation (Driver)</b>
Engineering (Including Design)	C	Planning, investigation, design etc of water and wastewater treatment processes and water and waste water networks	Direct control Excluded Non-regulated	Total revenue per service used as indicator of activity to allocate costs across all services.
Infrastructure/ Project Delivery	C	Management and delivery of infrastructure and other major projects.	Direct control Excluded Non-regulated	Remote communities and External projects allocated to Non-regulated.  The remainder allocated to all services using revenue as an indicator or activity.

**C = Causal, NC = Non Causal**

## 8. Cost allocation by segments (Water / Wastewater)

SA Water has utilised a process that segments the operating statement of the Corporation into the main business segments that described the services provided by SA Water and their geographic location.

These business segments are summarised in Table 14.

**Table 14: Business segments**

<b>Segment</b>	<b>Description</b>
<b>Water</b>	Provision of Water Services to Metropolitan Adelaide and Country South Australia
<b>Sewer</b>	Provision of Waste Water Services to Metropolitan Adelaide and Country South Australia
<b>Alternative Water</b>	Provision of alternate water supply e.g. recycled water
<b>Other</b>	Other revenue generating Services provided by SA Water that do not relate to the services above

This analysis had been undertaken for a number of reasons and a rigorous process has been developed to support such a segment allocation. The analysis has supported benchmarking (WSAA NPR), revenue recovery (CSO) activities, and pricing decisions and as such is also able to support a segment allocation for regulatory purposes.

### Recap on Costing Principles

The core business systems of SA Water do not provide the segment allocation as a direct system output. Consequently the management reporting systems used to support management accounting, budgeting and related business analysis across the Corporation have been used to prepare the view of operating revenue and expenditure by segment.

However, within the core business systems, specifically the general ledger chart of accounts, SA Water has in place a comprehensive activity structure that defines the lines of work or products (eg Water) to which many transactions relate. Leveraging the activity structure, the management accounting system is able to allocate operating expenditure and revenue to the business segments, based on predetermined drivers. This activity view also supports much of the segment view.

General ledger accounts are used to collect cost inputs, eg labour, materials, subcontract services, etc. They are assigned to each cost account and provide an input view of costs which support much of the internal and statutory reporting within SA Water. As transactions are processed they

are also assigned to responsibility centres (ie locations or departments) and activities as discussed above.

Where possible, operating activities are allocated directly to a segment. Where this is not possible the allocation is based on predetermined drivers.

### Segment Reporting - Process overview

Through the management reporting systems, the segment view of operations is prepared through a series of allocations of costs and revenue to business segments. Through this process 100% of all operating expenditure is allocated, enabling reconciliation to the Corporation's audited financial statements.

All general ledger accounts are allocated to a business segment as summarised in Table 15.

**Table 15: Allocation of accounts to business segment**

<b>Cost</b>	<b>Description</b>	<b>Allocation basis</b>
<b>Specific Costs</b>	Known costs that are directly linked to business segment. This might be a strategic project with separately captured costs	Allocated to the relevant product following assessment by Commercial Managers
<b>Activity costs related directly to an SA Water Service</b>	Principally operating expenditure which is directly linked to a product.	Allocated to the responsibility centre bearing the costs, but only to the designated service.
<b>Responsibility Centres</b>	Costs are accumulated in responsibility centres which are either 100% aligned to a segment or cannot be aligned to a specific segment.  Support costs are allocated in this manner	Commercial Managers agree the basis of allocation across service and geography based drivers that align the responsibility centres activity to a service
<b>Finance costs, Taxes, etc</b>	These expenses cannot be directly linked to any service	A range of business drivers are used when one exists for a specific expense otherwise they are spread evenly against each service
<b>Administered Items</b>	These costs are incurred by SA Water on behalf of the government for administering non SA Water Service	These costs are removed from any allocation

**Segment reporting – outputs and use in regulatory process**

Through the process described above, operating costs are allocated only once, allowing the input based operating expenditure of SA Water to be fully allocated to business segments. This in turn generates a view of how costs are spread across the regulated activities of SA Water.