

January 31, 2024

**Directlink Transmission
Determination 1 July 25 to 30
June 30
Basis of Preparation**

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1 Introduction

On 11 October 2023, the Australian Energy Regulator (AER) issued Directlink (No.1) Pty Limited (ABN 85 085 123 468), Directlink (No. 2) Pty Limited (ABN 87 095 439 222) and Directlink (No. 3) Pty Limited (ABN 86 095 449 817) trading as Directlink Joint Venture (Directlink) with a Regulatory Information Notice (RIN) under Division 4 of Part 3 of the National Electricity (New South Wales) Law and National Electricity (Queensland) Law (NEL).

Directlink being the regulated network service provider for the purposes of section 28D of the National Electricity (New South Wales) Law and National Electricity (Queensland Law (NEL) who provides electricity transmission network services in the states of New South Wales and Queensland is to provide and to prepare and maintain the information in the manner and form specified in the RIN.

As per the requirement of Section 5 “Basis of preparation” of the RIN, this Basis of Preparation document applies to ‘historical information provided in response to this *notice* (i.e., information other than forecast information)’.

“Information other than forecast”, relates to the reporting of actual and estimated financial and non-financial information.

1.1 How Directlink’s response to each variable meets the requirements of the RIN

Directlink has reported all information consistent with the requirements of the RIN:

- The Workbooks have been prepared in accordance with the requirements of the RIN and definitions as set out in Appendix B of the RIN.
- The basis of preparation which sets out the following:
 - The sources of the provided information.
 - The reporting methodology and assumptions.
 - Where adopted, the basis of estimates and assumption(s) utilised.
- Relevant supporting information or documentation for meeting the RIN requirements.
- The audit report in accordance with the requirements of the RIN and this Basis of Preparation by 31 January 2024.

1.2 Definitions of actual, estimated information and material

1.2.1 Actual information

Appendix B, attached to the RIN, defines actual information as follows:

“Information presented in response to the notice whose presentation is materially dependent on Directlink’s historical accounting records or other records used in the normal course of business, and whose presentation for the purposes of the notice is not contingent on judgements and assumptions for which there are valid alternatives, which could lead to a Materially different presentation in the response to the notice.

'Accounting records' include trial balances, the general ledger, subsidiary accounting ledgers, journal entries and documentation to support journal entries. Actual financial information may include accounting estimates, such as accruals and provisions, and any adjustments made to the accounting records to populate Directlink's regulatory accounts and responses to the notice. 'Records used in the normal course of business', for the purposes of non-financial information, includes asset registers, geographical information systems, outage analysis systems, and so on.

Information presented in response to this notice whose presentation is based on allocation methods using judgments or assumptions can be still reported as actual. However, the allocation method must be clearly documented by the Transmission Network Services Provider (TNSP) and approved by senior management as either a regulatory statement accounting policy or regulated statement policy, with any judgments or assumptions used in the allocation remaining consistent between regulatory years. The judgments or assumptions used are to be determined in accordance with this Notice."

On the basis of the definition detailed above, Directlink has reported in its Workbooks:

- actual historical financial information, as this data was sourced from the Directlink Regulatory Accounts; and
- actual historical non-financial information as this data was sourced from records used in the normal course of business.

1.2.2 Estimated information

Appendix B, attached to the RIN, defines estimated information as follows:

"Information presented in response to the notice whose presentation is not materially dependent on information recorded in the Directlink's historical accounting records or other records used in the normal course of business, and whose presentation for the purposes of the notice is contingent on judgments and assumptions for which there are valid alternatives, which could lead to a Materially different presentation in the response to the notice.

Information presented in response to the notice whose presentation is not Materially dependent on information recorded in the Directlink's historical accounting records or other records used in the normal course of business, and whose presentation for the purposes of the notice is contingent on judgments and assumptions for which there are valid alternatives, which could lead to a Materially different presentation in the response to the notice.

If the Directlink inserts a 'NULL' response to a variable in the notice, this will constitute estimated information."

Estimated information has not been reported as Directlink has reported in its Workbooks actual financial and non-financial information.

1.2.3 Material/Materiality

Appendix B, attached to the RIN, defines material/materiality as follows:

"Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively to influence the economic decisions of users (including the AER) taken on the basis of the information provided in accordance with the notice.

This definition is based on the definition of materiality in the accounting standard AASB 1031 or, upon the withdrawal of AASB 1031, paragraph 5 of the accounting standard AASB 108. These accounting standards provide context for the interpretation of this definition of materiality.”

1.3 Assurance requirement

In accordance with Section 6.1.5 of the RIN, assurance is required ‘to the following types of the historical information collected in the regulatory templates attached at Appendix A’:

- Actual financial information;
- Estimated financial information when actual historical information could not be provided;
and
- Actual and estimated non-financial information.

1.4 Rounding

Totals in the templates provided may not add due to rounding.

2 General overview and information

2.1 Network-specific information

2.1.1 Directlink electricity transmission interconnector

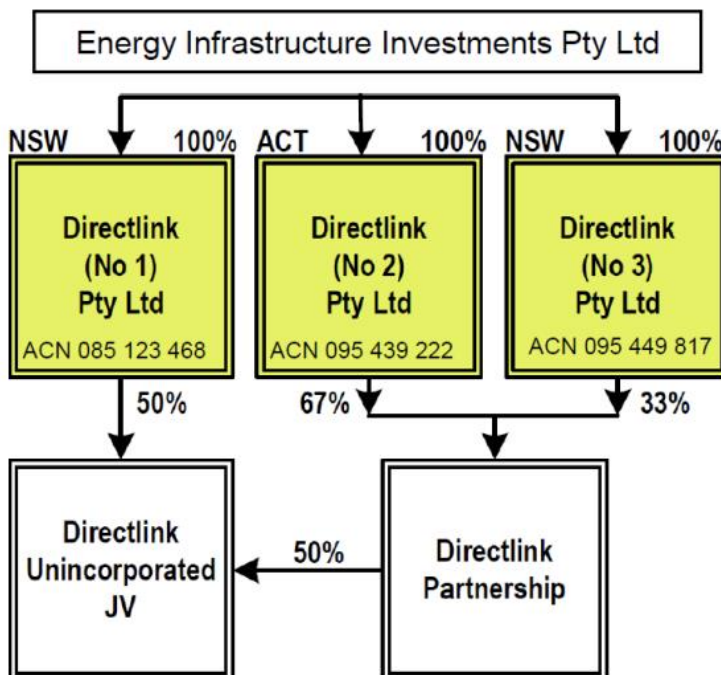
Directlink delivers electricity between the New South Wales and Queensland NEM regions. Directlink consists of 3 parallel high voltage direct current transmission lines, each approximately 63 kilometres long, with converter stations at Bungalora and Mullumbimby. While geographically located in NSW, Directlink effectively delivers electricity between New South Wales and Queensland due to its position in the transmission network. Directlink has capacity to deliver 180 megawatts into the AC network in either state.

2.2 Corporate structure

Directlink electricity transmission interconnector is one of a suite of gas and electricity infrastructure assets owned by Energy Infrastructure Investments Pty Limited (ABN 95 104 348 852). Those infrastructure assets are managed by the APA Group via a wholly owned subsidiary, APA Operations (EII) Pty Ltd (EII).

The current Energy Infrastructure Investments organisational chart is set out in Figure 1.1.

Figure 1.1 – Energy Infrastructure Investments corporate structure



2.3 Sources of information

2.3.1 Financial information

Directlink's accounting function, as part of the EII group, is managed by an APA Group (APA) wholly owned subsidiary, APA Operations (EII) Pty Ltd.

APA Operations (EII) Pty Ltd manages Directlink's day to day business transactions via APA's Enterprise Resource Planning (**ERP**) system. Oracle is the financial reporting system used which comprises several modules for managing the recording, processing and reporting of all business transactions from initiation through to payment. These modules include General Ledger, Projects, Fixed Assets, Payables, Receivables and Cash management. Oracle is the primary source of financial information. Costs are captured through cost centres and project reporting. The cost centre and project reporting provide details on the activity type of the costs, reflecting categories of capital, operating and maintenance activities and services.

Oracle is the underlying source of financial information used to produce Directlink's statutory trial balance. Directlink's statutory trial balances is prepared in accordance with the requirements of Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The statutory trial balance and relevant regulatory financial information (i.e., the Roll Forward Model) are the foundation of the Directlink Regulatory Accounts.

The actual financial information reported in the Workbooks are sourced from the Directlink Regulatory Accounts.

2.3.2 Non-financial information

For the purposes of non-financial information, the data was compiled from Australian Energy Market Operator (AEMO) NOS notifications, Directlink system outages, Supervisory Control and Data Acquisition (SCADA) information and AEMO constraint notices.

2.4 General methodology and principles

2.4.1 Financial information

Workbooks have been populated from the Directlink Regulatory Accounts.

The statutory trial balance and relevant regulatory financial information (i.e. the Roll Forward Model) are the foundation of the Directlink Regulatory Accounts.

The statutory trial balance has been prepared in accordance with the requirements of Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

All Accounting principles, policies, and costs categorisations (operating and capital) have been applied consistently throughout the regulatory years reported in the Workbooks.

Costs attributable to the provision of the Directlink electricity transmission interconnector and in accordance to the Directlink Cost Allocation Methodology (**CAM**) are reflected in the Workbooks.

The Directlink entities form part of the Energy Infrastructure Investments Pty Limited (ABN 95 104 348 852), the parent entity (refer to paragraph 2.1.1), which as a consolidated entity is required to prepare and lodge audited financial statements with ASIC.

Definitions are in line with Appendix B to the RIN unless otherwise stated in the sections.

All amounts for historical periods (i.e. pre to 1 July 2023) are presented in nominal terms.

All information is presented on a **regulatory year** basis.

2.4.2 Non-financial information

The data for STPIS historical data is sourced from Directlink's SCADA and control systems as well as AEMO's constraint information and Network Outage notifications.

2.5 Maintaining information

APA's ERP system Oracle provides the capability to record and report all base financial information for both statutory and regulatory purposes. Reports developed from the base financial information are prepared in accordance with necessary accounting, legislative and regulatory standards and guidelines. Detailed costing reports (General Ledger, project based and activity based) are generated from the Oracle system and supporting analytical spreadsheet packages.

Directlink will maintain records of cost attribution and allocations as follows:

- All base financial records will be extracted from APA's financial systems;
- Directlink's Regulatory Accounts and associated accounting records will form the basis of all reporting requirements;
- Analytical templates and work papers prepared for regulatory reporting;
- All records will be kept for at least seven years from date of submission;
- All records will be available to independent auditors and the AER.

3 Workbooks

3.1 Entry of data

In preparing the Workbooks, Directlink has relied on the general instructions contained in each of the workbooks and applied the following: if any yellow cells:

- were not applicable to Directlink in accordance with the RIN the input in these cells is “0”.
- were applicable to Directlink in accordance with the RIN and Directlink is unable to provide an estimate, the input in the cells is left as blank “NULL” with an explanation in this document.

The cells shaded grey in the Workbooks do not require an input by Directlink and all amounts reported in the Workbooks are on a one-for-one basis.

4 Actual Capital expenditure (Capex) reported in Workbooks

4.1 Capex reported in Workbooks

Directlink's actual capex is reported in the Workbooks on the basis as the "as incurred" method.

The Workbooks and tables which report this information are:

Workbook	Table
Workbook 1 – historical and forecast	2.1 Expenditure
Workbook 1 – historical and forecast	2.6 Non-network
Workbook 1 – historical and forecast	2.3c Material Projects
Workbook 2 – CESS	Input Reported Capex

As actual financial information is reported in the tables detailed above, assurance has been provided for the relevant regulatory years.

4.2 Relevant definitions

For the reporting of actual capex in the Workbooks detailed above, it is important to note the following:

4.2.1 Capex (Capital expenditure)

Appendix B defines Capex as any expenditure that has been included in the regulatory asset base and either relates to the purchase or construction of a new asset, increases the functionality of an existing asset or extends the service life of the asset.

The Capital expenditure reported by Directlink in the Workbooks is in accordance with AASB 116 Property, Plant and Equipment and the APA Capitalisation policy.

4.2.2 Material project

Appendix B, defines Material projects as:

A project that relates to one or more capex categories and which over the life of the works exceeds:

- a. \$2 million (real dollars) in the case of a project which relates to non-network categories;
or
- b. \$5 million (real dollars) in the case of all other projects.

4.3 Sources of information

The capex reported in the Workbooks is sourced from reports generated from the Fixed Asset module from the Oracle ERP System.

4.4 **Methodology and assumptions**

Directlink's capital expenditure is captured in the Oracle financial reporting system through cost centre and project reporting. Capital costs are recognised in accordance with AASB 116 Property, Plant and Equipment and the APA Capitalisation policy.

When constructing an item of property, plant and equipment, an asset is capitalised as capital work in progress when incurred. Once the asset is commissioned, it is transferred to the fixed asset register.

The information has been sourced from capital work in progress reports each year.

In accordance with the Capitalisation policy and AASB 116, costs associated with routine maintenance and repairs are expensed as incurred and not capitalised.

4.5 **Use of estimated information**

Historical financial information reported in the Workbooks was not required to be estimated. Actual historical financial information has been reported in the Workbooks as this information was retrieved from the Oracle ERP System.

4.6 **Material changes**

All accounting principles, policies and cost categorisations have been applied consistently throughout the regulatory years reported in the Workbooks.

4.7 **Other information**

Due to the contractual arrangements between EII and APA Group, Directlink has no shared assets and capitalised overheads.

4.8 **Reconciliations**

The RIN requires, where historical information provided in the Workbooks has previously been reported to the AER, the information must reconcile to the previously provided information or an explanation will be required as to why the information does not reconcile.

As the historical capex provided in the Workbooks reconciles to the Directlink Regulatory Accounts provided to the AER, no further explanation is required.

5 Actual Operating expenditure (Opex) reported in Workbooks

5.1 Opex reported in Workbooks

Directlink's actual opex is reported in the Workbooks.

The Workbooks and tables which reports this information are:

Workbook	Table
Workbook 1 – historical and forecast	2.6 Non-network
Workbook 3 – EBSS	7.5 EBSS

As actual financial information is reported in the tables detailed above, assurance has been provided for the relevant regulatory years.

5.2 Relevant definitions

For the reporting of actual opex in the Workbooks detailed above, it is important to note the following definitions contained in Appendix B:

Operating expenditure (opex) – costs of operating and maintaining the network (excluding all capital costs and capital construction costs).

Opex category – means operating expenditure associated with the following categories:

- non-network expenditures
- vegetation management
- maintenance
- network overheads and corporate overheads

5.3 Sources of information

The Opex reported in the Workbooks is sourced from the Directlink Regulatory accounts, refer to paragraph 2.4.1.

5.4 Methodology and Attribution methods

Directlink's opex is captured in the Oracle financial reporting system through cost centre and project reporting. Opex costs are recognised in accordance with Accounting standards and principles.

5.4.1 Direct Costs

Directlink 's direct costs comprise the following the components:

- direct network operation, including operating expenses, communications, energy costs and connection costs;
- direct maintenance costs; and

- direct other costs, including insurance, contracted services, taxes, travel costs, utilities expenses, accounting fees and legal fees, and other direct expenses which can be attributable to the asset.

Direct costs, attributable to Directlink, are coded to Directlink or a project relating to Directlink through creation of a purchase order.

5.4.2 Shared costs

Directlink is operated and maintained by the APA Group under a contractual arrangement with EII.

The primary contract is the Management, Operations and Maintenance and Commercial Services Agreement (**MOMCSA**). Under the MOMCSA, the APA Group provides the following services to EII, at a margin on all relevant costs, in respect of its portfolio of assets:

- management, operation and maintenance;
- liaison with third parties;
- administration;
- procurement;
- project work; and
- litigation.

The APA Group also provides commercial services (financial management and reporting, legal and regulatory and project management services) which are provided on a fixed basis.

The EII shared costs are allocated to an individual asset using the percentage (%) of the revenue the asset contributes to EII's total revenue.

The allocation of these costs are in accordance with the Directlink Cost Allocation Methodology (**CAM**) dated January 2019 which has been approved under chapter six of the National Electricity Rules and has consistently been applied for historical periods in the Workbooks.

5.4.3 All Costs

All direct and shared costs are reported in the Directlink Regulatory Accounts.

5.4.4 Use of estimated information

Historical financial information reported in the Workbooks was not required to be estimated. Actual historical financial information has been reported in the Workbooks as this information was retrieved from the Directlink Regulatory Accounts.

5.5 Material changes

All Accounting principles, policies and costs categorisations have been applied consistently throughout the regulatory years reported in the Workbooks.

5.6 Reconciliations

The RIN requires, where historical information provided in the Workbooks has previously been reported to the AER, the information must reconcile to the previously provided information or an explanation will be required as to why the information does not reconcile.

As the historical opex provided in the Workbooks reconciles to the Directlink Regulatory Accounts provided to the AER, no further explanation is required.

6 Capex immediately expensed for tax purposes reported in Workbooks

6.1 Capex immediately expensed for tax purposes reported in Workbooks

Directlink 's capex immediately expensed for tax purposes is reported in the Workbooks.

The Workbook and table which reports this information is:

Workbook	Table
Workbook 1 – historical and forecast	8.2 Capex

As actual financial information is reported in the table detailed above, assurance has been provided for the relevant regulatory years.

6.2 Relevant definitions

For the reporting of immediate expensing of capital expenditure in the Workbook detailed above, it is important to note the following:

Appendix B, attached to the RIN, includes the following definition:

“The value of the capital expenditure, which would be added to the regulatory or tax asset base, claimed by the Transmission Network Service Provider (TNSP), that has been treated or would be as immediately deductible for income tax purposes (e.g. refurbishments, overheads).”

6.3 Sources of information

The capex immediately expensed for tax purposes has been sourced from records used to prepare the EII tax returns (of which Directlink is a member of the tax consolidated group).

6.4 Methodology and assumptions

The immediate expensing of capital expenditure is captured in the tax return process and are recognised in line with the Australian Tax Legislation.

In general, there are certain types of expenditure where treatment for tax purposes is different from the treatment for accounting purposes and an immediate tax deduction is available when the costs are incurred. For example, the maintenance of an asset to prevent future defects, such expenditure is permitted to be capitalised for accounting purposes and immediately claimed for tax purposes as they are considered to be repairs.

For Directlink, during the regulatory years reported in the Workbooks, there was no such expenditure capitalised for accounting purposes, considered to be repairs and claimed as an immediate deduction for tax purposes.

It is important to note that the EII Group reports for tax purposes on a calendar year basis, therefore the amounts reported are amounts claimed on a calendar year basis (for example, the amounts reported in the workbook for 2018-19 reflects the amounts claimed for tax for the calendar year 2019).

6.5 Use of estimated information

Historical financial information reported in the Workbooks was not required to be estimated. Actual historical financial information has been reported in the Workbooks as this information was retrieved from relevant tax workings and records.

6.6 Material changes

Tax principles used to calculate the capex immediately deductible for tax purposes have been applied consistently throughout the regulatory years reported in the Workbooks.

6.7 Other information

It is important to note that during the regulatory years reported in the Workbooks, there was no capex which was immediately expensed for tax purposes.

6.8 Reconciliations

The RIN requires, where historical information provided in the Workbooks has previously been reported to the AER, the information must reconcile to the previously provided information or an explanation will be required as to why the information does not reconcile.

As there is no record of this information being provided to the AER, no further explanation is required.

7 Actual Service target performance incentive scheme data reported in Workbooks

7.1 Service target performance incentive scheme data reported in Workbooks

Directlink's actual Service target performance incentive scheme data is reported in the Workbooks.

The Workbook and table which reports this information is:

Workbook	Table
Workbook 1 – historical and forecast	7.9 STPIS

As actual financial information is reported in the table detailed above, assurance has been provided for the relevant regulatory years.

7.2 Relevant definitions

No specific definitions.

7.3 Sources of information

Data for both Service and Market Impact Components has been sourced from the previously reported Service Component and Market Impact Component data submitted to the AER annually over the current regulatory period. The data for annual STPIS reporting is sourced from Directlink's SCADA and control systems as well as AEMO's constraint information and Network Outage notifications.

7.4 Methodology and Attribution methods

The method of gathering data for annual STPIS submissions to the AER, was to compile AEMO NOS notifications, Directlink system outages, SCADA information and AEMO constraint notices to determine Directlink's performance for Service Component and Market Impact Component Reporting.

Historical information reported in 7.9.1 reflects the AER's Service Component methodology that averages events over the relevant and prior year that the annual submission covers.

Historical information reported in 7.9.4 is a direct reflection of the annual Market Impact Component spreadsheet sent to the AER for that year's annual STPIS submission. Event counts are validated against AEMO market constraint data. Each of these annual spreadsheets have been provided in separate Workbook 4 files.

7.5 Use of estimated information

Historical information reported in the Workbooks was not required to be estimated. Data reported for calendar years 2019 to 2022 reflects actual historical information previously reported to the AER in annual STPIS submissions. Data for calendar year 2023 has yet to be submitted to the AER and will be sent in January 2024, reported values in the Workbook reflect actual year to date performance up to November 2023.

7.6 Material changes

No material changes have been used or needed for STPIS historical reporting.

7.7 Reconciliations

The RIN requires, where historical information provided in the Workbooks has previously been reported to the AER, the information must reconcile to the previously provided information or an explanation will be required as to why the information does not reconcile.

As the historical data provided in the Workbooks reconciles to previously provided data to the AER, no further explanation is required.