



Cost of Allocation Methodology

Responses to the 2021 to 2026 Access Arrangement
Regulatory Information Notice

July 2020

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AMENDMENT RECORD

Version	Date	Author	Description of Changes
1.0	30 June 2020	Mark McAra	Final for AGN (SA) AA RIN

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1. Corporate Profile

Previously operating as Envestra Limited, our company is today known as Australian Gas Networks - a name which accurately reflects both the nature of our business now, and our focus on the future.

We have a rich history, with our origins dating back some 150 years to the gas distribution networks of the former South Australian and Brisbane Gas Companies, and the Gas and Fuel Corporation of Victoria.

The South Australian and Brisbane Gas Companies (which started operating in the 1860s) were owned by Boral Limited. In early 1997, Boral decided to sell the distribution networks of both these companies by floating Envestra Limited as a new company. In March 1999, our company acquired part of the former Gas and Fuel Corporation's distribution network in Victoria.

In September 2014, three companies within the CK Group acquired all the listed shares in Envestra Limited and as a result, our name was changed in October 2014 to Australian Gas Networks.

Australian Gas Networks (AGN) is part of the Australian Gas Infrastructure Group (AGIG), one of the largest gas infrastructure businesses in Australia. In 2017 AGN, Multinet Gas Networks (MGN) and Dampier to Bunbury (DBP) came together to create AGIG.

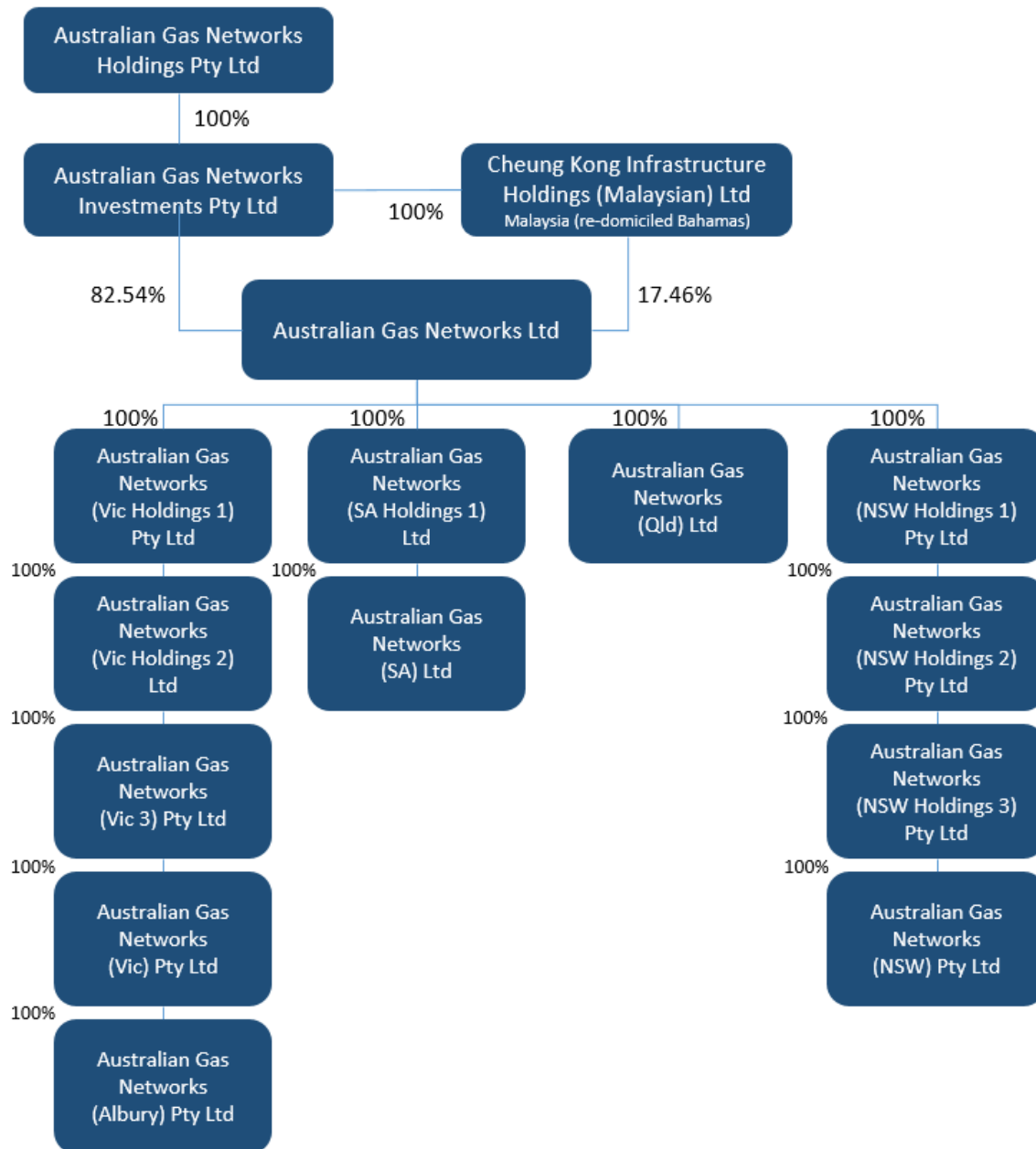
AGIG serves over two million customers across every mainland state and the Northern Territory. Our assets include around 34,000km of distribution networks, over 4,000km of transmission pipelines and 57 petajoules of storage capacity.

In South Australia we serve more than 458,000 customers. The AGN South Australian distribution network is more than 8,100 km long, serving residential, commercial and industrial business customers in Adelaide (from Two Wells to Aldinga) and regional centres in the Upper North, Barossa, Riverland and South East of the state.

Since 2007, the operation and maintenance of our networks has been contracted to APA Asset Management (APA). Together with APA's efforts and commitment, we continue to deliver a safe and reliable supply of natural gas to customers connected to our networks.

A diagrammatic representation of AGN's ownership structure can be found below.

Figure 1.1 Australian Gas Networks Group Corporate Structure



2. Nature, Scope and Purpose

The purpose of this document is to set out the Cost Allocation Methodology (CAM) adopted in Australian Gas Networks Limited's (AGN) regulatory reporting. This is pursuant to the Regulatory Information Notice (RIN) issued by the Australian Energy Regulator (AER) to AGN on 28 February 2020, under Division 4 of Part 1 of Chapter 2 of The National Gas (South Australia) Law (the Access Arrangement RIN), which requires that AGN must submit, amongst other things, a CAM in respect of the pipeline services it provides by way of a covered pipeline in South Australia¹.

This CAM relates to and accompanies the historical performance data provided within the Regulatory Templates (*Microsoft Excel Workbooks titled 'Gas DNSP 2022-26 - Reset RIN - FINAL – Workbook 2 - historical' and 'Gas DNSP 2022-26 - Reset RIN - FINAL – Workbook 3 - ECM'*). For AGN SA this covers the reporting periods 2014-15 to 2018-19.

This CAM will also apply to the subsequent regulatory years annually from the 2020 regulatory year (for AGN SA 2019-20).

The scope of this document covers the cost attribution and allocation for functions undertaken by AGN and the network operations and management and capital works functions undertaken by AGN's principle contractor, APA.

Costs of services performed by these functions are both direct and indirect in nature and can be applied to capital, operating and maintenance type activities.

These procedures apply to both reference services and non-reference reference services provided by AGN.

The CAM is established in line with AGN's Regulatory Accounting Principles and Policies document provided as part of the response to this AA RIN.

¹ Schedule 1, paragraph 1.2(b)

3. Definitions

Terms	Definition
AA	Access Arrangement
AER	Australian Energy Regulator
AGN	Australian Gas Networks Limited
AGN SA	Australian Gas Networks (SA) Limited
APA	APA Asset Management
ARS	Ancillary Reference Services
BOP	Basis of Preparation
Capex	Expenditure incurred on capitalised assets
CEO	Chief Executive Officer
CFO	Chief Financial Officer
EMT	Executive Management Team
Gas Distribution Business	A natural gas distribution network that takes gas from transmission pipelines and reticulates it into residential homes, offices, hospitals and businesses
MO&MR	Monthly Operating and Management Report
OMA	Operations and Management Agreement with APA
Opex	Operational expenditure attributing to the statement of income position for the period (i.e. profit and loss)
RFAs	Ring Fenced Accounts
RIN or Notice	Regulatory Information Notice. This is the formal requirement to prepare an annual regulatory return using the RIN template.
RIN template	Regulatory Information Notice templates. These templates provide both financial and non-financial information of the regulated business and are submitted to the Australian Energy Regulator.
SAP	SAP Business One - finance system

4. Responsibility for the Cost Allocation Methodology

Overall responsibility for the CAM is with the Chief Financial Officer and Head of Regulation of AGN, who will:

- conduct periodic reviews of the CAM, that includes, but not limited to, changes to organisational structure, operating model, cost allocation policy, significant accounting policies and regulatory guidelines where applicable;
- liaise with other General Managers, Business Unit Managers, Finance Managers and their personnel where issues are raised; and
- act as a reference point for all queries regarding the CAM.

In response to organisational change, process improvements, regulatory, legal and accounting standard changes, this CAM will be refined to ensure it continually meets the underlying principles and that cost drivers and allocators used are relevant.

Revisions to this CAM must be approved by the Chief Financial Officer and Head of Regulation.

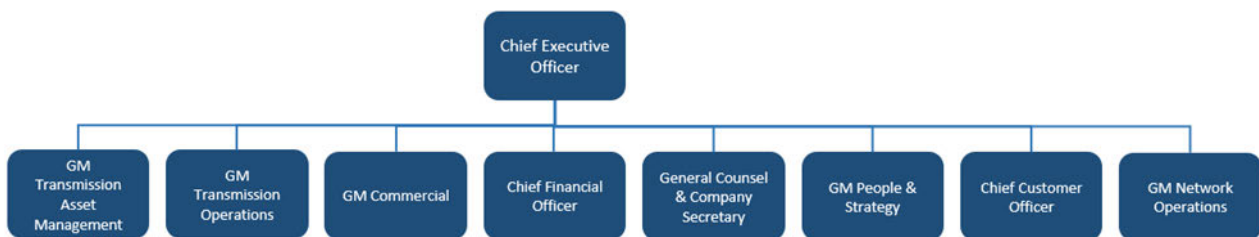
5. Organisational Structure

5.1. Australian Gas Infrastructure Group (AGIG)

The Chief Executive Officer and executive team provides strategic leadership and oversight of AGIG's business operations nationally.

The executive team is organised into functional areas aligned with key business strategies. A diagrammatic representation of the AGIG group organisational structure, with functional responsibility is contained in Figure 5.1 below.

Figure 5.1: AGIG - Organisational Structure as at June 2020



The functions shown above provide corporate management and administration services, including IT and marketing services to the regulated and unregulated businesses in each of the states in which the AGIG group operates including AGN's separate regulated pipelines in South Australia, Victoria, New South Wales and Queensland.

5.2. Operational Management

APA was appointed on 2 July 2007 to operate and manage AGN's networks in accordance with legal and prudential standards, and to provide the services and functions described below and any other services agreed between the parties.

APA's obligations to AGN include:

- Managing the haulage of gas through each network
- Operating and maintaining each network
- Planning, designing and constructing network extensions
- Assisting AGN with submissions to the national regulator
- Assisting AGN in promoting the use of natural gas
- Preparing and settling with AGN the operator budget for each financial year
- Providing AGN with regular information on financial and other management issues
- Reading meters and billing retailers

APA charge AGN for these services on a direct cost pass-through basis and the agreed Network Management Fee.

6. Costing Principles and Policies

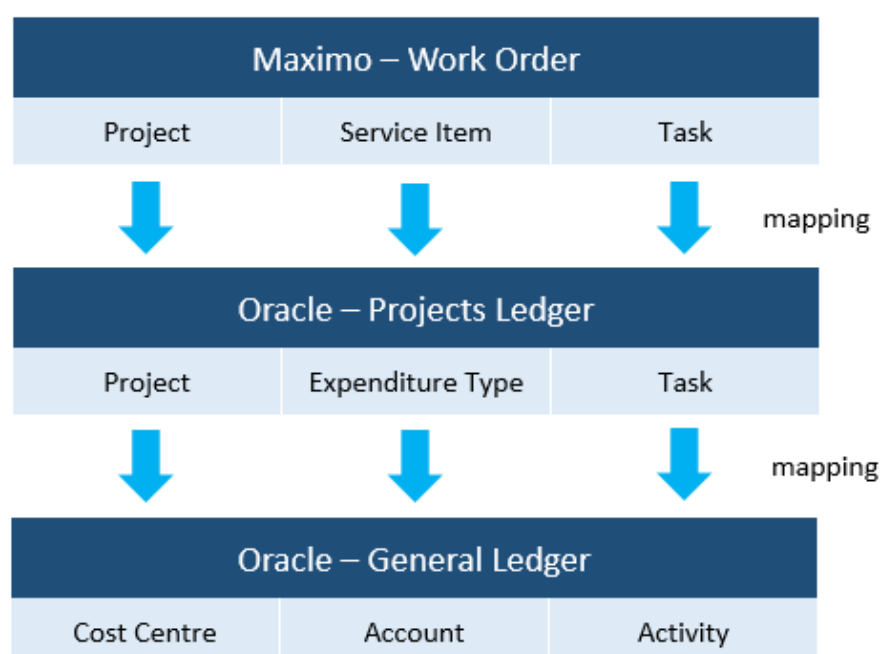
6.1. Australian Gas Networks' Costing Overview

AGN collects and allocates costs in accordance with its internal accounting policies and procedures and in a manner consistent with this CAM.

AGN's cost collection and reporting is undertaken in its finance system (SAP Business One) and with data sourced from its principle operating and management contractor APA. This data provided by APA is sourced from its business management systems, including its Oracle General Ledger, which is integrated with an Oracle Projects Ledger and a separate Asset Management System (Maximo).

Figure 6.1 below, illustrates the relationships between APA's integrated business management systems that collect directly attributable and allocated costs which are reported to AGN.

Figure 6.1 APA Integrated Business Systems - Flow Chart



APA systems overview

APA maintains a number of business applications used to record and report expenditure on projects and activities that it has been contracted to perform on behalf of AGN.

These applications are configured to separately record and report expenditure for work undertaken on each of AGN's pipelines (regulated and unregulated) and to a level of detail that facilitates AGN's reporting obligations to the AER. This includes enabling AGN to report capex in the categories and sub-categories required for this Access Arrangement (AA) RIN (e.g. capex by project, capex by activity or purpose and capex by connection type).

This is done by AGN and APA through the use of data mapping processes that transforms expenditure information from its source format as reported from APA's systems into the categories

and sub-categories shown in the AA RIN templates. Appropriate checking and reconciliation processes are in place to ensure that expenditure is correctly mapped and that all expenditure is accounted for and reported. These reconciliations are provided to our auditors as part of the assurance process.

APA incurs costs in carrying out work for AGN which can be directly attributed and also has costs that are required to be allocated which is done through the use of causal allocators.

Data transfer from APA to AGN

Each month, APA provides AGN with a data extract from its General Ledger. AGN uses this data extract, which is provided in a Microsoft Excel workbook, to map expenditure between the APA reporting line items, to the relevant AGN internal General Ledger account codes and state codes, for the purpose of monthly management and annual reporting. Journal entries prepared and posted each month by AGN are reconciled back to the monthly opex and capex charges received from APA.

AGN reporting

AGN utilises its finance system (SAP Business One) along with a reporting tool (Qlikview) to capture, control and report its costs at the General Ledger account and state level, through the use of account codes and state codes. AGN's General Ledger enables identification of in-house labour and out-sourced expenditure through reference to applicable general ledger account codes.

6.1.1. Operations and Management Expenditure

With the operations and management of AGN's networks contracted to APA, the majority of AGN's operating and capital expenditure is initially recorded in APA's integrated business management system, Oracle.

APA incurs direct expenditure in performing its functions, comprising labour, contractors, materials, services and other costs. APA also allocates and charges a proportion of its business support and overhead costs to AGN along with the agreed Network Management Fee.

APA regularly reports on its activities to AGN in the form of a Monthly Operating and Management Report (MO&MR), which includes details of operating and capital expenditure incurred on AGN's assets, along with other operational performance metrics.

For the purpose of management reporting, APA uses its Oracle finance system to allocate expenditure to relevant business zones operated by AGN and to applicable expenditure categories or activities that are aligned with AGN's financial budgets.

In addition, APA prepare and provide to AGN a set of Ring Fenced Accounts (RFAs) each half year (i.e. in June and December) that reports on both operating and capital expenditure allocated between AGN's regulated and unregulated pipelines (including its pipelines outside of South Australia). AGN reconciles the RFAs back to the information provided by APA in the MO&MR.

To prepare the RFAs, APA utilises a proprietary reporting tool (Cognos) to reallocate the management reporting data into the required regulatory reporting view. This reporting tool uses a set of predetermined business rules and allocators to redistribute national and state based costs to the appropriate regulated and unregulated pipelines and any other unregulated (excluded) services. The cost allocators used to produce the RFA are listed in Table 6.1 below.

AGN maps expenditure reported by APA in the RFAs at a business zone and expense category or activity level to the relevant categories and sub-categories within the AER's RIN templates. Where appropriate AGN also make adjustments to APA's cost allocations, in accordance with the Regulatory Accounting Principles and Policy provided with AGN's response to the RIN.

6.1.2. Functions Undertaken Internally by AGN

AGN's internal costs relate to corporate management and administration functions including IT and marketing. All of these costs are captured within AGN's finance system, SAP Business One.

Internal costs that are identifiable as relating to specific operating or capital expenditure activities and locations (or states) are directly allocated for the purpose of reporting to the AER (refer section 6.2.1.2 where this is described in more detail). This includes any IT or property related capital expenditure where the relevant pipeline(s) or business areas that will benefit from the capital expenditure is identifiable.

All other internal costs for AGN's functions that provide support across multiple regulated jurisdictions (or unregulated business activities) are treated as indirect costs and allocated using an appropriate driver, as described further in section 6.2.2.2 below.

If there are ad-hoc costs incurred by AGN (as part of AGIG) that may be shared costs related to other entities within the AGIG group, these are allocated to each AGIG business based on the proportion of effort each business contributes and the benefits each business will receive from the initiative. Any ongoing costs associated with such initiatives are then allocated to each network every year on the basis of customer numbers in the respective networks. This ensures no cross-subsidisation, with the cost to each business reflecting the volume of customers that it serves.

In preparing financial statements each year or for a relevant reporting period, including regulatory financial information for the AER, it is common practice for expenditure to be accrued up to the reporting date where costs are known to have been incurred but invoices not yet received from a vendor. The principles applied in allocating these costs is consistent with the allocation of other AGN costs incurred, as explained above and in section 6.2.2.2.

6.2. Cost Allocation by Cost Type

There are two methods in which costs are allocated to operating and capital expenditure by AGN and its principal operating and maintenance contractor, APA.

- 1 Directly attributable costs; and
- 2 Indirect costs

Most of AGN's expenditure is directly attributable to its regulated and unregulated pipelines, and to the categories or activities in which expenditure is reported to the AER within the RIN templates.

Costs that cannot be directly attributed (i.e. corporate and business overheads, marketing and administration expenses) are allocated using an appropriate cost driver.

AGN does not have any indirectly allocated costs that have not been allocated on a causal basis to its regulated pipeline in South Australia or in any other relevant state.

6.2.1. Directly Attributable Costs (2014-15 to current)

6.2.1.1. APA Directly Attributable Costs

The cost of functions and activities that AGN has sub-contracted to APA and which is directly attributable for the purpose of RIN reporting to the AER, are listed below.

Capital Works

- All direct contractors, materials, services and other costs incurred to deliver capital projects

Operations

- Customer Service
- Gas Control/Telemetry
- Leaks
- One Call Centre
- Operations Administration
- Operations Management
- Regional Operations
- National Pipelines
- Network Maintenance
- Soil Remediation
- Training

Technical Services

- Network Planning

Marketing

- Marketing

Other

- Property Costs
- Network Management Fee
- Government Charges
- Unaccounted for Gas

The underlying type of costs within these functions and activities that are directly attributable comprise labour, contractors, materials, services and other costs.

Cost Type	Cost Driver
Labour	Labour directly associated with the operations and maintenance of the network is driven by hours worked which is captured in timesheets within APA's asset management system (Maximo). The home cost centre of employees predominately identifies the activity associated with the expenditure, with salary and wages costs allocated directly to that home cost centre when paid. Hours spent by employees

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Cost Type	Cost Driver
	<p>working on other activities (i.e. not in their home cost centre) are recorded against the other relevant cost centres, enabling costs to be transferred out of the home cost centre. Labour costs recognised represent employee salaries and wages, including overtime and on-costs.</p> <p>Labour associated with support functions that predominately relates to a single service area, is recognised as a cost in each employee's home cost centre upon payment of their salaries or wages, including overtime and on-costs.</p> <p>Labour associated with operational support functions that provide services to multiple activities, is captured in an Oracle timesheet system (OTL) which facilitates the allocation of labour costs from the employee's home cost centre, to the relevant cost centres associated with the activities being supported. The initial costs of those employees' salaries and wages are recognised upon payment as an expense in their home cost centre. Costs that are transferred to other cost centres are based on an hourly rate, calculated to recover the equivalent hourly cost of that employee, including overtime and on-costs.</p>
Contractors	<p>Contractors are sourced to supplement APA's own workforce and particularly for capital projects. Contractors are predominately procured through the issuing of work orders in APA's asset management system (Maximo). Work orders are assigned with project codes, which enables costs to be mapped and interfaced to Projects in APA's Projects Ledger. The Projects Ledger is integrated with APA's Oracle General Ledger via mapping of master data codes in each system as shown in Figure 6.1.</p>
Materials, services and other costs	<p>Materials, services and other costs associated with operations and maintenance and capital works projects are procured through the issuing of work orders in Maximo.</p> <p>Materials, services and other costs associated with support and overhead functions are procured through the issuing of purchase orders in APA's procurement module (iProcurement) which sits within the Oracle finance system. Purchase orders are assigned to project codes in the Oracle Projects Ledger which is integrated with the General Ledger.</p>

6.2.1.2. AGN Internal Directly Attributable Costs

Activities within AGN's internal expenditure that can be directly attributed, are identified by a location (or state) data field attached to the General Ledger account and department code. This links the cost to a particular state and/or pipeline. Examples of directly attributable costs are:

- Consulting and legal costs
- Jurisdictional costs and license fees pertaining to a particular pipeline
- Audit fees including technical, volume and RIN audits that relate directly to a pipeline
- Bad debts
- Remediation costs

6.2.2. Indirectly Allocated Costs (2014-15 to current)

There are certain functional activities within AGN or that are contracted to APA that are not wholly attributable to specific pipelines or categories of expenditure and therefore need to be allocated. These include corporate and general management, network planning and asset strategy, network

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engineering, technical support and other business support and administration functions that are provided nationally or that are state based but which support multiple regions within a state.

6.2.2.1. APA Indirectly Allocated Costs

The activities undertaken by APA are outlined in Table 6.1 below, including those that are either a state based or national function. These are primarily operating activities but includes a proportion of which is capitalised (e.g. capitalised overheads outlined in section 6.2.3.1).

The basis of cost attribution applied by APA in preparing the RFAs, including how costs are allocated to business zones within states is shown in Table 6.1 below. Cost allocators have been selected on the basis of being the appropriate driver which is the most significant trigger of consumption or utilisation of resources or services in relation to a given category of expenditure.

Business zones are either regulated (including light regulation) or unregulated. Additionally APA identify some business zones as being 'small zones' for the purpose of excluding those zones from certain cost allocations where they are considered immaterial (i.e. costs are not materially influenced by the existence of that small zone).

Table 6.1: APA Ring Fenced Accounts - Cost Attribution

Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation to Regulated and Unregulated pipelines
OPERATIONS				
Cathodic protection		X		<ul style="list-style-type: none"> Kilometres of Distribution Network
Customer Service	X	X	X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers South Australia costs directly allocated
Gas Control/Telemetry	X			<ul style="list-style-type: none"> South Australia costs directly allocated
Leaks	X	X		<ul style="list-style-type: none"> South Australia costs directly allocated
One Call Centre	X	X		<ul style="list-style-type: none"> South Australia costs directly allocated
Operations Administration	X	X	X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers South Australia 'Compliance and Support' cost centre allocated on Customer Numbers (excluding small zones) South Australia 'SA Market Transactions' cost centre directly allocated

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Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation to Regulated and Unregulated pipelines
Operations Management	X	X		<ul style="list-style-type: none"> South Australia 'Adelaide Ops Management' cost centre allocated on Customer Numbers South Australia other cost centres directly allocated
Regional Operations	X	X		<ul style="list-style-type: none"> South Australia costs directly allocated
National Pipelines	X	X		<ul style="list-style-type: none"> South Australia costs directly allocated
Network Maintenance	X	X		<ul style="list-style-type: none"> South Australia costs directly allocated
Soil Remediation	X			<ul style="list-style-type: none"> South Australia costs directly allocated
Training	X			<ul style="list-style-type: none"> South Australia costs directly allocated (excluding small zones)
TECHNICAL SERVICES				
Network Planning	X			<ul style="list-style-type: none"> South Australia costs directly allocated
TSG management - incl. Regulation		X	X	<ul style="list-style-type: none"> Kilometres of Distribution Network
Technical Assurance		X		<ul style="list-style-type: none"> South Australia costs directly allocated
Network Engineering		X		<ul style="list-style-type: none"> Kilometres of Distribution Network
CORPORATE				
Business Solutions Group		X	X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers South Australia costs allocated on Customer Numbers (Application Projects and Strategy allocated excluding small zones)
Finance and Accounting			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers (excluding small zones)
General Management			X	<ul style="list-style-type: none"> National costs allocated on Consumption (Adelaide and Thomastown General

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Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation to Regulated and Unregulated pipelines
				Management allocated excluding small zones)
Commercial & Regulatory			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers (excluding small zones)
SHARED SERVICES				
Information Technology			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers (excluding small zones)
HSE			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers (excluding small zones)
OTHER				
Property Costs	X	X		<ul style="list-style-type: none"> South Australia costs allocated on Customer Numbers
Capitalised Overheads		X		<ul style="list-style-type: none"> South Australia costs allocated on Customer Numbers
Network Management Fee	X	X		<ul style="list-style-type: none"> Revenue per zone/National Total Revenue x National Total Network Management Fee
Fair Asset Rental		X		<ul style="list-style-type: none"> n/a to South Australia
MARKETING				
Marketing	X	X	X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers South Australia costs directly allocated
OTHER				
Government Charges	X	X		<ul style="list-style-type: none"> South Australia costs directly allocated
UAFG	X	X NSW only		<ul style="list-style-type: none"> South Australia costs directly allocated

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6.2.2.2. AGN Internal Indirectly Allocated Costs

The internal expenses incurred by AGN that are not directly attributed, as there is no location (or state) field attached to the General Ledger account and department code, are allocated by applying an appropriate cost driver, as outlined below. Cost categories may be directly allocated, indirectly allocated or a combination of both.

There are three drivers primarily used as the basis of indirectly allocating AGN's internal expenses.

- 1 Existing customer numbers
- 2 Increase in customer numbers; and
- 3 Regulatory asset base

When used, these cost allocators have been selected as being an appropriate driver due to being the most significant trigger of consumption or utilisation of resources for given expenditure categories.

AGN allocates its internal expenses to each of the regulated and unregulated pipelines it owns in South Australia, Victoria, Queensland, New South Wales and the Northern Territory and to any other unregulated business activities.

Table 6.2 below lists the categories within AGN's expenses and the method or driver with which they are allocated. For completeness, the table also lists items of expenditure that are directly allocated as listed in Section 6.2.1 above.

Expenditure allocated in accordance with this methodology is accounted for as operating expenditure in AGN's regulatory reporting to the AER and encompasses all of AGN's internal functions, as represented in the organisational structure in Figure 5.1.

Table 6.2: Australian Gas Networks Limited - Corporate Management and Administration Expenses - Cost Attribution

Expenditure categories	Directly Allocated	Indirectly Allocated	Basis of allocation to Regulated and Unregulated pipelines/activities
Changes in Provisions	X		<ul style="list-style-type: none"> Direct
Corporate Costs (e.g. ASIC costs, insurance etc.)		X	<ul style="list-style-type: none"> Existing customer numbers
Debt Raising Costs (costs incurred in relation to raising debt instruments for investment in AGN's networks)		X	<ul style="list-style-type: none"> Regulatory Asset Base
Government License Fees	X		<ul style="list-style-type: none"> Direct
Marketing (costs relating to marketing the use of natural gas and rebates to customers)	X	X	<ul style="list-style-type: none"> Direct Existing customer numbers
Other (e.g. office expenses, travel, entertainment, conferences etc.)	X	X	<ul style="list-style-type: none"> Existing customer numbers Regulatory Asset Base; and Direct
Payroll Costs (salaries and related labour costs)	X	X	<ul style="list-style-type: none"> Increase in customer numbers; and Direct

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Expenditure categories	Directly Allocated	Indirectly Allocated	Basis of allocation to Regulated and Unregulated pipelines/activities
Professional Costs (General legal, consulting and audit costs)	X	X	<ul style="list-style-type: none"> Increase in customer numbers; and Direct

6.2.3. Capitalisation of Business Overheads

Business support costs are incurred as part of day to day operating activities and are generally categorised as operating in nature. However if those costs are incurred to enhance or improve the future economic benefits of an asset, those costs can be capitalised to the asset.

Whether to capitalise or expense costs incurred is guided by accounting standards (e.g. *AASB 116 - Property, Plant and Equipment*), noting that the cost of an item should only be recognised as an asset when it is probable that future economic benefits associated with the item will flow to the entity and the costs of the item can be measured reliably. AGN's Regulatory Accounting Principles and Policies document also contains guidance on the capitalisation of overheads as does the separate Capitalisation Policy provided in AGN's response to the AA RIN.

Any AGN internal costs that relate to a capital project are directly allocated as incurred, including labour. Given the nature of its other corporate management and administration functions which support the company generally, AGN does not capitalise any other expenditure that is not already directly allocated.

6.2.3.1. APA Business Overheads Capitalisation

The share of APA's overhead costs that are allocated to capital expenditure are initially collected into an 'overhead cost pool' based on a proportion of APA's selected department costs. There is effectively two overhead cost pools, with state and national overheads captured and allocated separately.

State based cost centres that are included in the state overhead pool are as follows:

- Network planning and asset strategy
- Operations management
- Regional operations
- Operations administration
- Stores

National based cost centres that are included in the national overhead pool are as follows:

- Network engineering
- Technical support services
- Training
- Property
- Shared services

These overhead cost pools are allocated to relevant activities of capital expenditure based on a percentage uplift rate set each year by dividing the total capitalised overhead cost pool into the

budgeted capital expenditure for each of the states in which AGN operates. This initial allocation is based on the budgeted expenditure for the year. At mid-year and year-end a 'true-up' process is undertaken to reconcile budgeted costs to actual costs, with year-end allocations representing actual costs.

Prior to 2015-16 IT capex also received a proportion of the overhead cost pool.

Major IT projects are excluded from this method as a direct allocation of time spent is used to transfer time and associated costs from activities (or departments) thereby reducing the overhead cost pool.

Direct capital overheads, for example the Planning department and certain Operations departments, are also allocated directly to capital expenditure rather than included in the capitalised overhead pool.

6.3. Related Party Costs

Until the current owners of AGN acquired the business on 29 August 2014, through the purchase of all the issued shares in Envestra Limited (Envestra), the APA Group was a significant shareholder in Envestra, owning 33% of the company. This meant that until this date, APA Asset Management (APA), which is an entity within the APA Group, satisfied the definition of a related party.

There is no Related Party Margin Expenditure in respect of AGN Limited's capital expenditure reported in the AA RIN template as 100% of the NMF paid to APA is reported as operating expenditure in accordance with the Regulatory Accounting Principles and Policy document section 4.2.4.

7. Record Maintenance

As described in section 5, AGN derives costs through its finance system and with data sourced from its principal operating and management sub-contractor APA.

AGN's audited statutory accounts are prepared for the consolidated group structure shown in Figure 1.1 and form the foundation for the overall costs that are included in the AA RIN financial reporting to the AER.

Full documentation is maintained in preparation of the regulatory reporting to the AER. Supporting cost reports are generated and working files prepared, including cost allocations containing bases as well as numeric and percentage values consistent with this CAM.

Financial data reported in the RIN templates is in accordance with, and reconciled to, the statutory financial accounts.

All reports and files are made available to external auditors for the purpose of expressing an opinion that the financial information contained in the regulatory templates is presented fairly in accordance with this CAM. As part of this process, AGN's Chief Financial Officer and General Manager People and Strategy sign a Management Representation Letter, attesting to the auditors that the RINs have been appropriately reviewed and prepared in accordance with these documents.

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

All the information prepared as part of the AA RIN must be maintained for:

- The initial regulatory years, for at least seven years from the date of the submission (30 June 2027); and
- The subsequent regulatory years, for at least seven years from the date of the respective submission.

8. Compliance with Cost Allocation Methodology

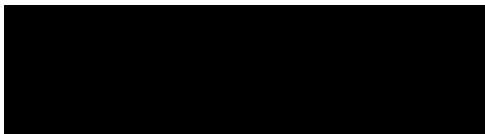
The Financial Controller and Head of Regulation in AGN is responsible for preparing financial information reported to the AER in the regulatory templates (Annual RINs and Access Arrangement RINs) in accordance with the CAM and other internal guidelines. The Chief Financial Officer is responsible for the final review of financial information reported in the Annual RINs. Compliance is endorsed by management and reviewed by independent auditors.

9. Application and Effective Date

This CAM document:

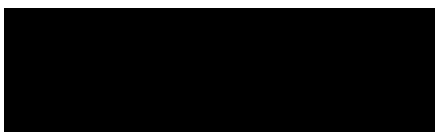
- a Is applicable to the historical performance data provided for the regulatory years within the Regulatory Templates pursuant to the AA RIN issued to AGN by the AER on 28 February 2020;
- b Is applicable to all AGN Limited and APA Asset Management personnel involved in the preparation of regulatory financial reporting to the AER;
- c Remains effective for future regulatory reporting periods, subject to amendment.

Approved by:



Paul May

Chief Financial Officer



Peter Bucki

Head of Regulation

Date: 30 June 2020

Appendix A Cost Allocators

Set out in the tables below, are the cost allocator amounts applied by APA in the preparation of the Ring Fenced Accounts (RFAs), for the periods reported in the regulatory templates in accordance with the AA RIN issued by the AER on 28 February 2020.

Listed are the allocator amounts applied in each six-month period for which the RFAs were prepared in the years 2014-15 to 2018-19. Listed first in Table 3 and Table 4 are the allocation factors used by APA in the RFAs. Following in

Table 5 are the allocation factors used by AGN.

Table 3: Allocation Factors and Amounts - APA Asset Management (Dec 2014 to Jun 2017)

Allocation Factor / Allocation Amounts	Dec 2014	Jun 2015	Dec 2015	Jun 2016	Dec 2016	Jun 2017
STATE ALLOCATORS (APA)						
Total Customer Numbers	98%	98%	98%	98%	98%	98%
Total Customers (excl. Small Pipelines)	100%	100%	100%	100%	100%	100%
Kilometres of Distribution Network	92%	92%	92%	92%	92%	92%
Total Consumption	98%	98%	98%	98%	98%	98%
Total Network Revenue	99%	98%	98%	98%	98%	98%
NATIONAL ALLOCATORS (APA)						
Total Customer Numbers	36%	36%	36%	35%	35%	36%
Total Customers (excl. Small Pipelines)	37%	36%	36%	36%	36%	37%
Kilometres of Distribution Network	33%	32%	32%	32%	32%	33%
Total Consumption	16%	17%	17%	21%	21%	16%
Total Network Revenue	45%	44%	44%	41%	41%	45%

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Cost of Allocation Methodology

Table 4: Allocation Factors and Amounts - APA Asset Management (Dec 2017 to Jun 2019)

Allocation Factor / Allocation Amounts	Dec 2017	Jun 2018	Dec 2018	Jun 2019
STATE ALLOCATORS (APA)				
Total Customer Numbers	98%	98%	98%	98%
Total Customers (excl. Small Pipelines)	100%	100%	100%	100%
Kilometres of Distribution Network	92%	92%	92%	92%
Total Consumption	98%	98%	98%	98%
Total Network Revenue	98%	98%	98%	98%
NATIONAL ALLOCATORS (APA)				
Total Customer Numbers	35%	36%	35%	35%
Total Customers (excl. Small Pipelines)	36%	36%	36%	36%
Kilometres of Distribution Network	32%	32%	32%	32%
Total Consumption	20%	17%	21%	21%
Total Network Revenue	36%	44%	41%	41%

Table 5: Allocation Factors and Amounts - AGN Limited (Jun 2015 to Jun 2019)

Allocation Factor / Allocation Amounts	Jun 2015	Jun 2016	Jun 2017	Jun 2018	Jun 2019
AGN INTERNAL COST ALLOCATORS					
Total Customer Numbers	35.6%	35.4%	35.1%	34.9%	34.7%
Increase in Customer Numbers	27.7%	24.2%	24.3%	24.1%	23.9%
Regulatory Asset Base (SA AA)	41.5%	41.2%	41.8%	41.9%	42.6%