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November 30, 2021

Reset RIN – Victorian Transmission System

basis of preparation workbook 2 2016 to 2020 historical information

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1 Introduction

On 3 September 2021, the Australian Energy Regulator ("AER") issued APA VTS Australia (Operations) Pty Limited (VTS) ("VTS") (the Service provider for Victorian Transmission System) with a Regulatory Information Notice ("RIN") under Division 4 of Part 1 of Chapter 2 of the National Gas Rules (Queensland) Law ("NGL").

The RIN specifies information to be provided to the AER by VTS.

Data supplied in this RIN relates to the historical information and regulatory years defined in the VTS 2023-27 – Reset RIN – Workbook 2 – Historical expenditure of Appendix A to the RIN, which relates to the calendar years 2016 to 2020.

This Basis of Preparation document applies to the RIN issued to the Victorian Gas Transmission System and the service provider is APA VTS Australia (Operations) Pty Limited.

1.1 Pipeline-specific information

1.1.1 *VTS and the market carriage system*

VTS transports natural gas within Victoria, supplying the Melbourne metropolitan area and country areas. It also supplies gas to NSW via the Interconnect with the Moomba Sydney Pipeline (MSP) at Culcairn and to South Australia via the SEA Gas Pipeline at Port Campbell. The average annual throughput of the VTS is in excess of 200 PJ per annum

VTS is operated by the AEMO under the Victorian market carriage system rather than a contract carriage system. That is, while APA owns and maintains the VTS in accordance with the Service Envelope Agreement (SEA) with AEMO, AEMO is responsible for the dispatch of compressors and actuation of valves to effect the shipment of gas through the VTS. To ship gas through the VTS, shippers must register with AEMO as a Market Participant in the Victorian wholesale gas market. In so doing shippers are bound by Part 19 of the National Gas Rules, which govern all Market Participants. Under Rule 327, shippers must enter into a Transmission Payment Deed with APA. Shippers proposing to withdraw gas from the market must also enter into a connection agreement with either a gas distribution company or APA, or have arrangements to transport the gas to a connected transmission pipeline.

Under the terms of a Transmission Payment Deed, shippers agree to pay transmission tariffs directly to APA as owner of the VTS. Tariffs for use of the VTS are known as Transmission Use of System (TUoS) charges. The TUoS charges reflect the cost to deliver gas from the 8 Injection Zones to the 25 Withdrawal Tariff Zones and Points on the VTS. For the purpose of determining top ten peak injection zones there are 4 aggregated Close Proximity Points[1] (CPPs): Longford (includes Longford, VicHub and tasHub), Pakenham, Culcairn and Iona (includes Iona, Seagas and Otway).

1 A Close Proximity Point (CPP) is the collection of individual injection points at a particular location. For example, the Longford CPP would encompass TasHub and VicHub injections; the Port Campbell CPP includes Iona storage, Pt Campbell production, and injections from the SEAGas Pipeline.

AEMO is no longer required to submit an access arrangement for the VTS although it remains the pipeline operator. The VTS is a covered pipeline under the NGL, and is regulated the NGR by the AER.

1.2 How VTS's response to each variable meets the requirements of the RIN

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

- The reporting templates have been prepared in accordance with the requirements of the RIN and definitions as set out in Appendix F 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 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 1 December 2021.

1.3 Definitions of actual and estimated information

The definition of actuals is in line with Appendix F and consistent with the definition in the RIN. VTS has applied the following definition of actual information in its response to the RIN:

> Information presented in response to the Notice whose presentation is materially dependent on information recorded in the pipeline service provider's 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 response to the notice.

Non-financial information for the RIN is sourced from records used in the normal course of business including APA's Grid System ("Energy Components" APA's hydrocarbon accounting system which holds the physical parameters for the asset (metres and delivery points) and the shipper parameters for billing), Maintenance Management and incident management database ("Maximo"), Integrity Management Systems ("IMS") and Supervisory Control and Data Acquisition ("SCADA") system.

Information involving a calculation or an allocation presented in response to this RIN is, in certain instances considered actual information, as this information is retrieved from VTS's accounting and business records and does not include significant judgements and assumptions. Examples of such calculations are shared corporate expenditure allocation and shared support asset allocation.

Actual financial information may include accounting estimates and adjustments made to the accounting records in accordance with the regulatory accounting principles to populate the pipeline service provider's regulatory accounts and responses to the RIN.

All information is classified as estimated where it is not classified as actual.

The methodologies, assumptions and judgements made in respect of various parts of the Regulatory template are described in the relevant sections throughout this basis of preparation document.

1.4 Best estimates

Where VTS could not populate the templates with actual information, VTS has provided its best estimate. For each instance where VTS has provided best estimate information, this basis of preparation document provides explanations in the relevant section as required by section 1.2 of Schedule 2 of the RIN.

In the materials submitted to the AER, no material changes occurred in the capitalisation policy or the cost allocation methodologies for the relevant regulatory year. Policies are identical to the policies submitted as part of the VTS Annual RIN in April 2021 and have been re-submitted for convenience.

1.5 Rounding

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

2 General overview and information

2.1 Sources of information

VTS'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 the VTS's statutory trial balance. VTS's statutory trial balance 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.

- **Revenue:** APA also obtains volumetric data on a monthly basis from AEMO which is entered into APA's hydrocarbon system and which is automatically recorded into Oracle financial reporting system. VTS's revenue recognition complies with the revenue recognition principles in accordance with the requirements of Australian Accounting Standards.

- **Operating direct costs:** Operating cost categories are materially in line with the categories identified in the RIN.

APA has allocated to VTS shared corporate expenditure based on a revenue allocation method and shared assets on the basis of allocated shared corporate expenditure. For further details of allocation methods, refer to section 5.1.2 for shared corporate expenditure allocation and 4.1.2.4 for shared assets.

A covered pipeline service provider is a legal entity registered under Corporations Act 2001 of the Commonwealth as in accordance with section 131, chapter 4 part 1 of the National Gas Law.

The trial balances represent the financial information for the legal entity, APA VTS Australia (Operations) Pty Limited, the VTS service provider in accordance with the definition above. This trial balance is made up of 5 reporting business segments. One business segment which records the activities of the covered pipeline and another business segments which records other activities (such as the Dandenong LNG Gas Storage facility, Metering and Third party activities) which do not form part of the regulated asset and is not within the scope of this RIN. The historical RIN reporting only relates to the financial information for the covered pipeline.

For other financial information, VTS has sourced financial information from the regulatory Access Arrangement determinations (e.g. roll forward model and the post-tax revenue model) and tax returns.

For the purposes of non-financial information, VTS sourced information extracted from APA's Grid System ("Energy Components"), Maintenance Management and incident management database ("Maximo"), Integrity Management Systems and Supervisory Control and Data Acquisition ("SCADA") system.

2.2 VTS's audit of statutory account balances

Based on discussions with the AER, VTS's audited trial balance requirements are as follows:

Historical reporting (Regulatory year 2013–19):

No assurance requirements for the audited statutory trial balance for the 2013–19 regulatory years.

Annual reporting (Regulatory year 2020 onwards):
The statutory trial balances are required to be audited from 2020.

2.3 General methodology and principles

Methodologies used for the preparation of the Reset RIN historical numbers are identical to the methods used in the preparation of APA's statutory financial accounts, except for revenue categorisation, operating cost, shared corporate expenditure and shared support assets.

Financial information has for purposes of the Reset RIN has been derived from VTS's statutory trial balance which forms part of APA Group's Consolidated Statutory Financial Statements.

The requested information for the Reset RIN historical does broadly align with legal entity reporting. VTS owns scheme assets and other non-regulated assets (such as the Dandenong LNG Gas Storage facility, Metering and Third party activities). The reported financial information provided is supported by RBP's regulatory accounts, direct costs and asset registers as relevant.

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

All amounts are presented in nominal terms unless stated otherwise.

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

2.4 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.

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

- All base financial records will be extracted from APA's financial systems;
- APA's statutory financial statements 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 initial regulatory year submission; and for the subsequent regulatory years, for at least 7 years from the date of the respective submission;
- All records will be available to independent auditors and the AER.

These records will be maintained to:

- Demonstrate the attribution of costs to, or allocation of costs between APA's assets.
- Allow attributions or allocations to be audited or otherwise verified by a third party, including the AER.

3 Workbooks

3.1 Entry of variables

1. Variables in yellow cells

Yellow cells required input per the RIN. If a yellow cell is not applicable to VTS the cell has not been populated e.g. as a "null" response with an explanation in this document. In those instances where VTS intends a zero value, the input is "0" which in the regulatory template format is presented as dash ("-")

For the reporting period workbook 2 Historical expenditure, these cells have been subject to Audit assurance in line with RIN requirements.

2. Variables in grey cells

Grey cells do not require input by VTS; or may contain formulas based on inputs from yellow cells. These cells have not been subject to Audit assurance as in line with the RIN.

3. Numerical inputs

All amounts are unrounded and reported on a one-for-one basis.

VTS has for the Excel workbook 2 completed and submitted an actual information workbook, which also represents the consolidated version. No information in workbook 2 was deemed confidential.

3.2 Financial information compliance

Compliance Requirement	RBP Compliance
Appendix E - 1 Part A: ***General*** 1.1 The *financial information* must: (a) Be derived from the *audited statutory accounts*;	VTS's financial information is derived either from VTS's statutory trial balance or from AER determinations. As noted in section 2.2 VTS has derived information for its historical reporting template from its unaudited statutory trial balances for the period 2013–2019. For the year ending 31 December 2020, financial information was derived from the audited statutory trial balance.
(b) Be verifiable by reference to the *audited statutory accounts*;	All information for the historical period reported in workbook 2 (ie years 2016–19) has been reconciled to the unaudited statutory trial balances. For the period ending 31 December 2020 the financial information was derived from the audited statutory trial balance.
(c) Be prepared using the accrual basis of accounting;	VTS has consistently used the accrual basis of accounting in line with AASB requirements for the regulatory reporting periods.

(d) Report the substance, over the form, of a transaction, taking into account all aspects, implications and expectations of and motivations for the transaction and that a group or series of transactions that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate;	VTS statutory accounts are In line with the requirements of the AASB accounting standards. This covers underlying transactions for the financial information as reported in the RIN.
(e) Only include costs that are incurred in or relate to the provision of *pipeline services*;	All cost reported as part of the financial information is either directly incurred by VTS or allocated to VTS and incurred in the provision of *pipeline services*.
(f) Be presented on a fair and consistent basis, from the *accounting records* that underlie the costs, revenue, *assets* employed and liabilities which may be reasonably attributed to the *pipeline service provider*;	VTS has complied with this requirement throughout the RIN by ensuring a consistent application and fair basis of costs has been attributed to the service provider. Where relevant, further information has been provided in section 5.1.1 in the basis of preparation.
(g) In so far as is reasonably practicable, be prepared in accordance with the general rules and format, and use the accounting principles and policies applicable to the *audited statutory accounts* except as otherwise required by this *notice*.	As noted in section 2.2 VTS has derived information from its unaudited statutory trial balances. for the period 2013 to 2020. For the year ending 31 December 2020, financial information was derived from the audited statutory trial balance. VTS has prepared the Regulatory template in accordance with the general rules and format of the RIN. Accounting principles and policies have been applied consistently throughout the RIN as outlined in this document.
(h) Be presented in an understandable manner, without sacrificing relevance or reliability;	VTS has complied with this requirement by preparing this Basis of Preparation in an understandable manner without sacrificing relevance or reliability.
(i) State fairly the financial position of the *pipeline service provider*; and	Prior to the RIN requirement, VTS was not required to have audited statutory trial balances. AER has agreed to remove assurance requirements for the audited statutory trial balance for the 2016 to 2019 regulatory years. Based on the agreed process with the AER, the Auditor is not required to opine on VTS's financial position as historical statutory trial balances are not required to be audited for the years 2016 to 2019. For the year ending 31 December 2020, financial information was derived from the

	audited statutory trial balance in line with the RIN requirements. The rest of the reported financial information in the Regulatory template has been subject to an audit and review for the period 2016 to 2019. Prior to the VTS requirement, VTS was not required to have audited statutory trial balances.
(j) Unless otherwise specified, not be adjusted for inflation.	Inflation has not been applied to any actual historical amounts. Inflation might have been applied in those other instances as allowed under the RIN.
1.9 Where historical information provided in the *regulatory templates* has previously been reported to the *AER*: (a) This information must reconcile with the previously provided information; or	The reported information in Workbook 2 is identical to the Historical and Annual RIN information for VTS submitted to the AER in April 2021.
(b) The *pipeline service provider* must explain why the information does not reconcile with the previously provided information in its *basis of preparation*.	No reconciling differences to the Historical and Annual data provided in April 2021.
1.11 Actual capital expenditure and operating expenditure must be reconciled to the pipeline service provider's audited statutory accounts. Where the pipeline service provider is part of a corporate group that reports this information at the corporate group level, the pipeline service provider must reconcile to the information reported at the corporate group level. Where reconciliation is at the corporate group level the pipeline service provider must:	AER approved in written form that the service provider was not required to prepare audited statutory trial balances for years 2016 to 2019. The AER has provided written consent to the approach of reporting information sourced from unaudited statutory trial balances. The amounts reported by the service provider in this table in the historical regulatory reporting are deemed actuals as unaudited statutory trial balances were sourced from the Oracle financial system. For the year 2019-20 the service provider has had its statutory trial balance audited. The table in the annual RIN year 2020 represents actuals as the audited statutory trial balances were sourced from the Oracle financial system.
(a)Allocate statutory reported expenditures to the pipeline service provider and indicate the method of allocation;	Refer to section 5.1.1 Costs and section 5.1.2 Shared corporate expenditure.
(b) Show calculations for any allocation; and	Refer to section 4.1.2.1 for allocation of shared corporate assets, and section 5.1.2 for shared corporate expenditure.

(c) Indicate where any changes in allocation method or calculations have occurred in relation to the historical or annual data and how these changes have been adjusted for in the use of the data.	If applicable this will be reported in the relevant section.

3.2.1 *Reconciliation of previously reported actual historical information to the AER*

The RIN requires VTS to report if information provided in the Annual RIN agrees with information previously provided to the AER, and if it does not agree, to reconcile the two. Capital expenditure is required to be reported in categories that VTS does not use for the statutory financial reporting. For reconciliation purposes, VTS has provided information where the capital expenditure in aggregate reconcile to previously provided information.

Total capital expenditure agrees to amounts previously reported. As a result of further review of pigging projects previously classified as Non-network Capex in the VTS CY19 and CY20 RIN, these projects were reclassified as Replacement Capex in the VTS 2023-27 – Reset RIN – Workbook 2 – Historical expenditure. The reclassification does not impact total reported capex.

4 Capital expenditure

4.1 Capex

All costs (operating and capital expenditure) are captured in APA's financial reporting system Oracle through cost centre and project reporting. The cost centre and project reporting provide details on the activity type of the costs, reflecting categories of capital, operating & maintenance activities and services.

4.1.1 *Definition of capex in the RIN*

Relevant definitions for the reporting of Capex in Workbook 2– Historical expenditure are:

Capital expenditure ("Capex") is defined as any expenditure that has been included in the capital base of the pipeline service provider that:

- Relates to the purchase or construction of a new asset; or
- Increases the functionality of the asset; or
- Extends the service life of the asset.

Capital expenditure ("purposes") is defined in accordance with AASB definition of an asset plus regulatory adjustments and is reported under the following categories:

- Replacement capital expenditure;
- Expansion capital expenditure;
- Non-system (non-network) capital expenditure;
- Capitalised network overheads; and
- Other capital expenditure.

Tables E2. Repex, E3. Expansion, E6. Non-network and E13. Other capex E2.1 in Workbook 4– 2021 expenditure requires the capital expenditure to be reported in the categories detailed above. RBP has applied the definitions as reported in the RIN Appendix F.

Directly attributable expenses can be defined as:

- Capital expenditure that is directly related to a work activity, project or work order;
- In-house costs of direct labour, direct contract costs;
- Other directly attributable costs (refer section 5.1.1); and
- Directly attributable costs exclude any overheads, unless the expenditure relates to capitalised corporate overheads or capitalised network overheads.

Based on discussions with the AER, VTS has applied the definition of "directly attributable costs" from the Appendix F to this RIN for the historical and annual years. In particular, this definition provides that "directly attributable costs exclude any overheads, unless the expenditure relates to capitalised corporate overheads or capitalised network overheads".

VTS reported capitalised corporate overheads and capitalised network overheads as directly attributable expenses in the RIN. Capitalised corporate overhead amounts have been attributed to the three capital expenditure purposes in the tables based on the asset classification: Replacement, Expansion or Non-network as directly attributable expenses.

4.1.2 *Capex by driver - split*

In Workbook 2 Historical expenditure, the RIN requires VTS to report the net “as-incurred” capital expenditure split by driver (direct labour, direct material, direct contractor, other direct expenditure and overheads) based on the categories for each capital expenditure purpose (Replacement capex, expansion and non-network overheads and other capex).

Definitions for the capex driver are in line with the definition in Appendix F to the RIN or as otherwise specified:

Labour expenditure	Includes all expenditure used to deliver reference services and other services provided as a covered pipeline that is associated with people. Labour expenditure relates to: o full time, part time and casual employees; o ongoing and temporary employment contracts; and o labour hire contracts. Labour expenditure includes wages, salaries, overtime payments, bonuses, allowances, incentive payments, superannuation contributions, taxes (e.g. payroll and fringe benefits taxes), termination and redundancy payments, workers compensation, training and study assistance, purchases made on behalf of employees (e.g. protective clothing).
Direct labour	No specific definition in appendix F, however VTS has interpreted it as any labour expenditure in line with definition from appendix F that can be directly attributable to VTS by project or work order.
Directly attributable	Directly attributable costs include in-house costs of direct labour.
Direct materials	Materials are the raw materials, standard parts, specialised parts and sub-assemblies required to assemble or manufacture a network/non-network asset or to provide a network/non-network service. Direct materials costs are attributable to a specific asset or service, cost centre, or work order, and exclude materials provided under external-party contracts. Includes: • the cost of scrap; • normally anticipated defective units that occur in the ordinary course of the production process; • routine quality assurance samples that are tested to destruction; and • the net invoice price paid to vendors to deliver the material quantity to the production facility or to a point of free deliver
Direct contractor	Contractor expenditure attributable to a specific asset or service, cost centre, work activity, project or work order.
Other direct expenditure	Anything that does not fit the category direct labour, direct material or direct contractor

Direct labour costs include all cost associated with people such as labour and on costs, temp staff, and training cost. It is noted that the service provider is not the employing entity. Salaries and wages are incurred by another APA entity and are directly attributed and allocated to VTS in accordance with methods described in section 5.1.1. Based on discussions with the AER in preparation for the Annual RIN reporting it was agreed that labour costs incurred by another APA entity will be reported as direct labour expenditure despite VTS not directly employing its own workforce.

Direct materials are costs for materials, tools, parts any other material related expenditure directly relating to the VTS.

Contractor costs reflects the total contractor expenditure that includes part material and part labour due to lack of a visibility on the components from contractors.

In certain circumstances where VTS was unable to determine the incurred capex as direct labour, direct material or direct contractor, the expenditure was categorised as other direct expenditure such as plant and equipment hire, travel, motor vehicle expenditures and other expenditure.

4.1.2.1 Compliance with requirements of notice

VTS has derived information from net as-incurred capital expenditure reports in Oracle for each regulatory year. All information has been reconciled to unaudited statutory trial balance for years 2016 to 2019.

For the year ending 31 December 2020 financial information was derived from the audited statutory accounts.

All costs that relate to or are incurred in the provision of pipeline services in the audited statutory accounts, must be allocated to the pipeline service provider in accordance with the following cost allocation principles: Costs that are directly attributable to the pipeline service provider, must be allocated on that basis. Refer to section 5.1.1 regarding costs.

Any capital work in progress at period end has in all instances been reported as capital expenditure. No separate work in progress heading is being reported.

In all cases for statutory reporting, items of property, plant and equipment are capitalised when commissioned. For reporting purposes under this RIN, VTS has included capital work in progress at period end (if applicable). This is reported in each respective asset category.

For reporting purposes for this requirement, VTS has reported the capital expenditure on an "as-incurred" basis in this Table. The information has been sourced from the capital work in progress reports each year.

4.1.2.2 Sources of information

The amounts for these tables were sourced from VTS's Oracle financial system for the regulatory years being reported on and represents actuals.

4.1.2.3 Methodology and assumptions - capex

VTS'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*. Once it has been determined that it is appropriate to capitalise the costs, they have been attributed directly to the pipeline via the cost allocation drivers described in section 5.1.1 Costs.

Construction, acquisition, major maintenance and asset replacement costs are capitalised in accordance with *AASB 116 Property Plant and Equipment* in the VTS trial balance. For statutory reporting, for the purposes of constructing Property, plant and equipment, an asset is capitalised as capital work in progress when incurred. When the asset is commissioned, it is reclassified in the fixed asset register and statutory depreciation commences. For these reporting purposes, VTS has added capital work in progress to the relevant capital expenditure categories as the RIN prohibits the reporting of a separate capital work in progress asset category. In compliance with this RIN VTS has reported the capital expenditure on an "as-incurred" basis. The information has been sourced from capital work in progress reports each year.

The following costs associated with routine maintenance and repairs are expensed as incurred in accordance with the Capitalisation policy and AASB 116:

- Administration and general overhead costs;
- Labour and consumables; and
- Staff training costs.

4.1.2.4 Methodology and assumptions - shared support assets

In addition to directly attributed capital expenditure and other attributable costs, each pipeline has been allocated a portion of the shared support assets using a transmission revenue based allocator, consistent with the categorisations in the access arrangement' determinations. This was presented in the access arrangement's asset class category Operations and Management ("O&M") facilities.

APA does not allocate its total shared support assets (for example, shared IT systems) among its pipelines (for example, VTS) in the Oracle financial system for statutory reporting purposes. Shared assets have been considered in the roll forward models ("RFMs") for the last two access arrangements and are included on an ongoing basis.

In order to determine the value of corporate support assets attributable to each service provider, VTS had adopted the ratio of attributed shared assets to APA revenue for the 2016 reporting period in line with the approved operating expenditure for the regulatory year in the August 2012 access arrangement determination.

Methodology for earlier years until 2016 regulatory and subsequent years

VTS developed a consistent approach for all regulatory and non-scheme assets which was applied to VTS from the year 2015-2016. For the subsequent regulatory years, VTS has adopted the ratio of attributed shared assets to APA corporate costs in line with the regulatory accounting principles.

In order to determine the value of shared support assets attributable to each service provider, VTS adopted the ratio of attributed shared corporate costs to total APA corporate costs for the reporting period:

$$\text{Service provider shared support assets} = \text{Specific APA shared support assets which benefits VTS} \times \frac{\text{Service provider corporate costs}}{\text{APA corporate costs}}$$

The proportion of shared support assets attributable to the service provider is included in the directly attributable capital expenditure.

4.1.2.5 Use of estimated information

There are no estimates applied in the reported tables. All other amounts presented in these tables are actuals as this information was retrieved from VTS financial systems and business records.

4.1.2.6 Material accounting policy changes or changes of allocation

As mentioned in section regarding changed allocation methodology of shared support assets 4.1.2.4.

4.2 Capitalised overheads

4.2.1.1 Definition directly attributable expenses

Directly attributable expenses can be defined as:

- capital expenditure that is directly related to a work activity, project or work order;
- in-house costs of direct labour, direct contract costs;
- other directly attributable costs; and
- Directly attributable costs excluding any overheads, unless the expenditure relates to capitalised corporate overheads or capitalised network overheads.

Based on discussions with the AER during the Annual RIN process, VTS has continued to apply the definition of “directly attributable costs” from the Appendix F to this Reset Reporting RIN for the historical information. In particular, this definition provides that “directly attributable costs exclude any overheads, unless the expenditure relates to capitalised corporate overheads or capitalised network overheads.”

VTS reported capitalised corporate overheads and capitalised network overheads as per the definition of directly attributable expenses in Appendix F to the RIN. Capitalised corporate overhead amounts have been attributed onto the capital expenditure purposes in the tables based on the asset classification - Replacement; Expansion or Non-network as directly attributable expenses since it relates to capitalised corporate overheads.

As a result, table E10.1 and E10.2 are zero. The capitalised overhead was attributed to each of the three capex expenditure purposes (Replacement, Expansion and non-network) in the table E2, E3 and E6 as directly attributable expenses in line with VTS’s interpretation of the definition of directly attributable expenses.

Complying with the RIN and as a result these overheads tables and lines are zero.

5 Cost allocation

5.1 Attribution methods

5.1.1 *Costs*

All costs (operating and capital expenditure) are captured in APA's financial reporting system Oracle through cost centre and project reporting. The cost centre and project reporting provide details on the activity type of the costs, reflecting categories of capital, operating & maintenance activities and services.

VTS has attributed costs directly to capital or operating projects, activities and services where possible and appropriate. Where costs are shared within APA, and unable to be directly attributed, activity-based costing and appropriate cost allocators are used to allocate costs across projects, activities and services to VTS.

The key cost allocation principles VTS has adopted are as follows:

- Costs are not allocated more than once;
- Costs cannot both be treated as a directly attributed cost and other directly attributable cost;
- Costs are allocated on a causal basis, in instances where direct attribution is not possible.

When assessing VTS operating and capital costs, the majority of VTS costs fall within two categories:

- **Directly attributable costs** to the pipeline service provider: Expenses that are clearly associated with a specific or regulated asset. Direct costs are coded to the asset or to a project relating to the asset, through creation of a purchase order at the time of purchase or direct employees charging their time to the asset or project, using an hourly rate derived from employee payroll costs.

  Examples of such costs include the pipeline and materials expenses directly attributed to repair and maintenance of pipelines and the employees who are solely dedicated in providing field services to the pipeline.

  The service provider is an employing entity for segments of the workforce. All directly attributable costs are recorded in VTS for these employees. APT Management Services (APTMS) is the employing entity for the remaining employees. APTMS recharges salary and wages from APTMS to VTS on a monthly basis. A consistent approach to recoveries and recharges has been applied.

- **Other directly attributable costs** to the pipeline service provider: Other expenses are costs directly attributable to the service provider and are incurred by APA's Transmission business[2]. In order to give a true reflection of the cost of running an asset, it is necessary to allocate a portion of APA's Transmission costs to the asset. APA's Transmission costs

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[2] Transmission Division is responsible for the management of APA Group's transmission and gas storage assets, including all aspects of commercial and operational performance.

are reviewed periodically to determine the extent the business unit's function has a bearing on the assets.

Examples of such costs include the allocation of APA's Integrated Operations Centre ("IOC") which manages APA's non-scheme and regulated pipelines throughout Australia.

For other directly attributable costs, VTS has utilised the following cost allocation methodologies on a causation basis where APA costs are applicable:

- Time/effort based - national transmission pipeline services such as the IOC costs are assigned to each non-scheme pipeline, reflective of time spent.
- Customer based - national cost centres that provide transmission services such as daily nominations, invoicing and billing allocate their costs based on the number of customers or number of contracts.
- Headcount based - national services such as human resources training and development; and facilities recharges are allocated to the business based on the overall headcount in the business.
- State based - national services such as health, safety, environment and heritage are provided by state based employees. The state based costs are allocated to the pipelines within that state using the aforementioned cost allocators.

Other expenditure subject to allocation and recharges are shared corporate expenditure which is allocated based on VTS's share of revenue. Further information is provided in section 5.1.2.

Based on discussions with the AER and the RIN requirement, VTS has applied the RIN definition to the costs identified in this section as "directly attributable costs excluding any overheads, unless the expenditure relates to capitalised corporate overheads or capitalised network overheads."

Since VTS has reported all its expenditure as directly attributable expenditure as required under this RIN, VTS has no expenditure:

- not directly attributable but allocated on a causation basis;
- not directly attributable and cannot be allocated on a causation basis

and therefore the reporting of each allocator and the amount allocated is not applicable.

5.1.2 *Shared corporate expenditure*

Since 2016 APA reports its total shared corporate expenditure at the consolidated level in its audited financial statements. APA does not allocate shared corporate expenditure to individual pipelines, business segments or subsidiaries such as VTS in its financial reporting systems.

APA has utilised the revenue based allocation method for its allocation of shared corporate expenditure as approved by the AER in the APA Victorian Transmission System ("VTS") access arrangement 2018-2022.

APA has for regulatory reporting purposes consistently allocated the shared corporate expenditure as reported in APA's financial accounts to each asset in APA's portfolio based on the process described below:

1. APA identifies shared corporate expenditure not deemed directly attributable to APA's portfolio of assets and excludes this expenditure from the total shared corporate expenditure.

   APA has identified shared corporate expenditure that is directly attributed to certain assets as a result of the nature of the shared corporate expenditure and the type of asset. APA's shared corporate structure means certain costs incurred at the corporate level are only applicable to certain type of assets (for example, network costs to network assets, corporate service recharge costs to the management of APA's investments.)

2. Shared corporate expenditure not allocated in Step 1 ("residual shared corporate expenditure") is allocated to assets APA owns (excluding WGP) using revenue as the basis of allocation.

   The revenue used for allocating shared corporate expenditure is the revenue from contracts with customers of the energy infrastructure segment, excluding pass-through revenue, and a portion of the revenue from contracts with customers of the asset management segment, as reported in APA's financial statements.

VTS has reported its shared corporate expenditure in the reporting tables as part of its "actual operating expenses". VTS has been allocated a proportional share based on reported transmission revenue.

Prior to 2016, the shared corporate expenditure was directly allocated to the service provider's trial balance.

5.1.3 *Debt raising costs*

Source of the information is the average regulatory asset base value for the year calculated in line with the AER's roll forward model. The debt raising costs have been determined using the average regulatory capital base. The regulatory capital base has been calculated based on applying actual capital expenditure inputs to the AER's asset base roll forward model, adjusted for actual CPI (average Australian eight capital cities). The reported amounts are in accordance with the accompanying RIN templates. The AER-allowed debt raising cost percentage rate was referenced to the relevant AER Final Decision post tax revenue model ("PTRM") for the relevant access arrangement.

5.1.4 *Reporting operating expenditure*

The RIN requires VTS to report financial transactions starting from statutory trial balances less adjustment to report the covered pipeline's actual regulatory operating expenditure.

Actual operating expenditure are reported as incurred in the trial balance of the underlying service provider in accordance with VTS applied regulatory accounting policies and principles on a consistent basis.

The operating expenditure adjustments applied to the trial balance for regulatory reporting relates to:

1. excluding expenditure incurred from activities independent from the provision of services provided by the covered pipeline, i.e. the Dandenong LNG Gas Storage facility, Metering and Third party activities;

2. other regulatory adjustments which are expenditures treated differently for statutory purposes and those under the access arrangement, for example access arrangement costs recorded as capital at the statutory trial balance but required to be recorded as an operating expense for the purpose of the service provider's access arrangement; and

3. expenditure not recorded at the statutory trial balance level but is required to be recorded as an operating expense for the purpose of the service provider's access arrangement

    a. shared corporate expenditure allocation. Adjustments in the period 2016-2020 representing the allocation of shared corporate costs as they are no longer recorded directly in the statutory trial balances (see section 5.1.2);

    b. debt raising costs for regulatory purposes. Debt raising cost is based on the approved approach applied by the AER in its final determination for the relevant access arrangement period (refer to section 5.1.3).

These adjustment amounts are reported as actuals and are based on the amounts incurred and calculations from business records.