Regulatory Accounting Principles

November 2020

Document type	Policy
Effective from	November 2020
Key contact	General Manager Finance
Document owner	General Manager Finance
Approved by	Chief Financial Officer
Next review date	November 2023
Review cycles	Every 3 years
Legend	N/A
Version Control	Update to Regulatory Accountoing Principles July 2020 Update November 2020

Contents

1 Overview and Purpose

APA Group's Regulatory reporting is prepared in accordance with various gas transmission regulatory requirements and the basis of accounting specified by all Australian Accounting Standards ("AASBs") and Interpretations, except where inconsistent with the regulatory reporting requirements.

This document sets out APA Group's principles that govern the preparation of regulatory financial reporting ("Regulatory reporting").

This document has been prepared for the purpose of meeting the requirement of the Regulatory Information Notices ("RINs") issued by the Australian energy Regulator ("AER") to APA under Division 4 of part 1 of Chapter 2 of the National Gas Law.

2 Principles

2.1 Financial information preparation and presentation

APA Group prepares and presents its statutory financial information to meet the AASB conceptual framework requirements ("framework") which includes the recognition and measurement criteria of the Australian Accounting Standards.

In line with the principles of this framework, the financial information satisfies the concepts of relevance and reliability and the substance of the underlying transactions and events are reported in the regulatory reporting templates. By following the underlying principles APA Group is able to ensure that its statutory financial information displays the characteristics of comparability, verifiability, timeliness and understandability.

The Regulatory Accounting principles follow the same framework. The regulatory accounting principles and policies are based on a recognisable and rational economic basis.

2.2 Regulatory reporting regimes

APA Group currently prepares regulatory financial reporting under the following regimes:

a) Annual Regulatory Accounts under Section 141 of NGL for Heavy and Light regulated assets;

b) Annual and Reset RINs issued under Division 4 of Part 1 of Chapter 2 of the NGL;

c) Annual Reporting obligation under Part 23 of NGR for non-scheme pipelines, in accordance with the Financial Reporting Guideline for non-scheme Pipelines; and

d) Annual Reporting obligation under Division 2 of Part 7 of NGR for Light Regulation Pipelines in accordance with the Financial Reporting Guideline for Light Regulation Pipelines.

The Regulatory Accounting principles will be expanded as and when additional regimes are enacted.

2.3 Basis of Preparation

APA Group's Regulatory Accounting policies are in accordance with the accounting policies described in APA Group's Annual Statutory Financial Reports except where adjustments are necessary (refer to 2.5 Regulatory Adjustments) in order to comply with AER Determinations, Guidelines and RIN requirements.

The Basis of Preparation documents submitted with each individual regulatory reporting deliverable should be referred to for specific definitions, preparation methodology for the specific regulatory reporting and underlying requirements. These regulatory accounting principles should be read in conjunction with each relevant Basis of Preparation and other relevant documents.

2.4 Allocation between regulated and non-regulated activities

The allocation of the financial position and performance of an asset between regulated and non-regulated activities is based on the principle that:

- Items that are directly attributable to regulated activities are assigned accordingly; and
- Items that are not directly attributable shall be allocated to regulated and non-regulated activities using an appropriate allocator.

APA Group's approved Cost Allocation Methodology ("CAM") provides in-depth guidance on the allocation methodology.

2.5 Regulatory adjustments

The following adjustments are necessary in order to comply with AER Determinations, Guidelines and RIN requirements. The starting point is always the individual service provider's statutory trial balance on which these adjustments are applied.

Adjustment	Principle
Property, Plant and Equipment (PPE)	PPE is reported differently under Regulatory Accounting from Statutory Accounting, using different methodologies depending on the regulatory requirements. In general the PPE cost base is derived from opening Regulatory Asset Base of the PPE or construction costs, adjusted by indexation (if applicable), plus Capex Addition, less Capex Disposal, and less Depreciation Expense.
Capex Addition	Capex addition is reported as-incurred or as-commissioned in compliance with respective reporting regimes.
Capex Disposal	Capex disposal or Gain/loss from sale of fixed assets is calculated in compliance with the various AER Guidelines, and consistent with Approved Access Arrangement, and per applicable reporting regimes.
Depreciation Expense	Depreciation Expense is calculated in compliance with AER Guidelines, and consistent with Approved Access Arrangement, and per applicable reporting regimes.
Debt	Debt is reported as the appropriate proportion of the Regulatory Asset Base of the PPE at the beginning of the year, deemed to be financed by debt. The appropriate portion complies with respective regulatory reporting regimes.

Adjustment	Principle
Finance expense	Finance expense includes cost of debt and debt raising costs. It is calculated by applying the appropriate percentages to the Debt. The appropriate percentages comply with respective regulatory reporting regimes.
Reclassification of Expenditure	Reclassification of costs treated as capital expenditure under Statutory reporting to operating expenditure under Regulatory reporting, or vice versa. The reclassification follows the AER Final Determination on the applicable Access Arrangement.
Shared Support Assets Allocation	For Statutory reporting purposes, Corporate Shared Support Assets are not allocated amongst APA Group's operating businesses. For Regulatory reporting purposes, shared support assets are allocated amongst all APA Group's operating businesses using a ratio of attributed shared corporate cost to APA corporate cost The allocated shared support assets form part of Capex Additions.
Shared Corporate Expenditure allocation	For Statutory reporting purposes, Shared Corporate Expenditure is not allocated amongst APA Group's operating businesses. For Regulatory reporting purposes, Shared Corporate Expenditure is allocated amongst all APA Group's operating businesses using a revenue-based allocation method.
Tax Expense	Adjustments required to reflect the tax expense on the above adjustments that impact the Profit and Loss.
Deferred Tax Balance	Adjustment required to report Deferred Tax Balance on the PPE.
Income Tax Provision	Adjustment required to disclose Income Tax Provision in compliance with respective reporting regime.
Reporting period	Adjustments required to align the reporting period with the regulatory period.

Any new or revised AASBs will be assessed for any adjustment in the reporting period that the standards become effective.