APA Group Limited

Corporate Cost Benchmarking - APA Allgas Network

Advisory
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Contents

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1 Executive summary

This report describes the outputs from a model to estimate the minimum Non-Capital corporate costs for a business with similar characteristics to the APA Allgas Network in Queensland.

The results of the modelling show the annual Non Capital corporate costs to be in the range of $6.08m to $8.48m with a mid point of $7.2m, expressed in 2010 dollars. This amount represents operating expenditure which would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable corporate costs that support the delivery of pipeline services under the National Gas Rules.

We consider that the appropriate level for corporate costs for the benchmarked entity as defined in this report is the mid point of $7.2 million. To assume that the corporate costs for the benchmarked entity is at the extreme lower bound would assume that the business could operate at the lowest possible cost for each individual benchmark. It is also equally unreasonable to assume that the business could operate at the high point for each benchmark. Therefore we consider that the mid point, as identified in this report represents the appropriate benchmark for the total of costs defined in this report.

In preparing this analysis, we identified further non-capital corporate costs that an efficiently operated gas distribution business might incur. These costs would increase the total of the efficient Non-Capital corporate cost set out above. However, the scope of our modelling is constrained to establishing a conservative view of the minimum Non-Capital corporate cost only, and not necessarily the whole amount of Non-Capital corporate cost that a prudent service provider acting in accordance with accepted and good industry practice would actually incur.

2 Introduction

2.1 Background

The APA Allgas Network is a gas distribution business in South East Queensland, servicing high population growth centres. The network includes over 2,800 km of distribution mains supplying over 75,000 gas connections.

The network extends from Brisbane, south of the Brisbane river, to the northern tip of New South Wales, with separate networks in Toowoomba and Oakey. In addition, a small pipeline services an ammonium nitrate plant at Moura, Central Queensland. An expansion of the network is underway in the Gold Coast area, which will extend the distribution network to service up to 9,000 new homes in the upper Coomera-Pimpama area.

The APA Allgas Network is subject to an access arrangement regulated by the Australian Energy Regulator (AER). We understand that the AER will make a determination on a proposed access arrangement revision for the gas distribution network in 2011.

As part of the proposed access arrangement revision, APA Group Limited (owners and managers of the APA Allgas Network) is to submit operating cost forecasts in accordance with the National Gas Rules, in particular, Rule 91 which states:

> 91 Criteria governing operating expenditure
>
> (1) Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services. *[From the National Gas Rules – Australian Energy Market Commission]*

The APA Group Limited has contracted KPMG to conduct an analysis and to produce a Benchmarking Report (i.e. this report) that sets out an independent assessment of appropriate corporate costs to assist APA Group Limited determine whether the Non-capital corporate costs allocated to the APA Allgas Network accord with Rule 91.

2.2 Purpose

2.2.1 Establishing costs under the National Gas Rules

This report has been prepared at the request of APA Group Limited in accordance with the terms of KPMG's engagement letter dated 28th May 2010.

This report sets out an independent assessment of benchmark Non-capital corporate operating expenditure for a Service Provider operating the Allgas APA Gas Network, consistent with the requirements of Rule 91 of the National Gas Rules.

The purpose of this report is to assist the APA Group Limited assess whether the operating expenditure allocated to the APA Allgas Network are consistent with Rule 91 of the National Gas Rules.

2.2.2 Structure of report

This report outlines the results of the benchmarking exercise, and is broken down into the following sections:

- Section 3 outlines our approach to developing the benchmarking model. It includes the following sub-sections:
  - Section 3.1 outlines the two benchmarking approaches used; top down and bottom up.
  - Section 3.2 outlines the core activities of the modelled business (as they relate to Non-Capital Costs).
  - Section 3.3 provides an outline of the major cost categories that have been used in building up the benchmark for Non-Capital Corporate Costs).
  - Section 3.4 outlines the key assumptions and parameters used in developing the benchmarking model, for example key assumptions concerning revenue size, business location and the adopted business model.
  - Section 3.5 outlines key benchmarking principles of conservatism, and minimising the risk of inaccuracy.
- Section 4 details the results of the benchmarking model, includes a breakdown of the major component costs and benchmarking data sources. It includes the following subsections:
  - Section 4.2 - Business strategy, planning and customer relations;
  - Section 4.3 - Administration, Executive and Corporate Costs
  - Section 4.4 - Economic Regulation;
  - Section 4.5 - Finance;
  - Section 4.6 - Company Secretary and Legal Services;
  - Section 4.7 - Information & Communication Technology; and
  - Section 4.8 - Key Assumptions.

3 Developing the cost model

3.1 Benchmarking methods

In developing a cost model, we have used benchmarks compiled from independent sources using publicly available information wherever possible. Our benchmarking utilises either of two methods to estimate the efficient costs for each activity or function of the hypothetical organisation. These two methods are described below:

1 ‘Empirical’ benchmarks - whole of activity of benchmarking using ‘empirical’ or overall benchmarks

‘Empirical’ benchmarks are defined in this instance as benchmarks of observed and reported costs of total activity costs. Components of these costs may also be reported in certain benchmarks, but we have not built up the total cost from components. We have relied on the reported totals in reported benchmark surveys.

As an example, in this benchmark report, we have used an empirical benchmark to estimate the costs of the Finance function. In this case we applied a percentage of revenue figure (taken from benchmark data sources) to the assumed revenue size of the business. Details of this are outlined in section 4.5.

2 ‘Bottom up’ benchmarks – cost modelling used when benchmarks for the entire cost of an activity are unavailable

‘Bottom up’ benchmarks are used when benchmarks for the entire cost of an activity are unavailable. The method of ‘bottom-up’ benchmarking can be summarised as comprising the following key steps:

- assessing the efficient staffing requirements and other relevant principal components of cost necessary to conduct that activity;
- applying benchmarks of unit costs applicable to each component, such as labour; and
- adding the associated requirements for supporting services and costs such as office space and oncost requirements relevant for the activity level.

An example of the ‘bottom up’ method in this model can be demonstrated by the economic regulation costs. For this function, we estimated the roles and FTEs[1] that would be required and identified the benchmarked salary level for each of these staff. Then we applied the associated salary on costs, and expected accommodation requirements. Details of this example are outlined in section 4.4.

The sources of the benchmarks used in this model are set out in the supporting information for each cost category to build up the Non-capital corporate costs. These benchmarks are publicly available although some may incur a cost to acquire them.

[1] FTEs – full time equivalent employees

The base year for our estimates is 2010 and all costs have been adjusted to March 2010 dollars.[2]

Wherever possible this cost model has used empirical benchmarks. In other words, we have chosen overall cost benchmarks for each corporate function required by a gas distribution business rather than benchmarks of the detailed processes that each corporate function might undertake.

3.2 Identifying the operating costs of the business

3.2.1 Non-Capital Corporate costs – Head office and local office

This report assumes that the gas distribution business operates:

- on a standalone basis; and
- through a head office that conducts corporate functions and a local office that conducts other operational functions.

This report considers Non-capital corporate costs at a headquarters level but does not include costs assumed to be incurred by the local office. Appendix A specifies the activities of the gas distribution business assumed to be conducted by the local office.

This delineation is made for the purposes of more clearly illustrating the costs that fall within the ambit of this benchmarking analysis. The benchmarks of minimum corporate costs are not dependent on whether the local office is physically contiguous or separate to the head office.

3.2.2 Services definition

We have based our Non-capital corporate cost model on a gas distribution system business that provides the following services:

	Services provided by a gas distribution pipeline business	*How this relates to our cost model*
(i)	The provision of pipeline capability to support the delivery of gas to customers	We assume that these activities are directly related to the gas distribution pipeline and are thus captured under “system operating” costs. They are therefore excluded from the corporate cost model.
(ii)	The management, maintenance and operation of the gas distribution system	Our Non-capital corporate cost model only includes the costs of undertaking risk management, regulatory management and administration and corporate governance necessary to support the operation of the gas distribution system. The direct costs of managing, maintaining and operating the

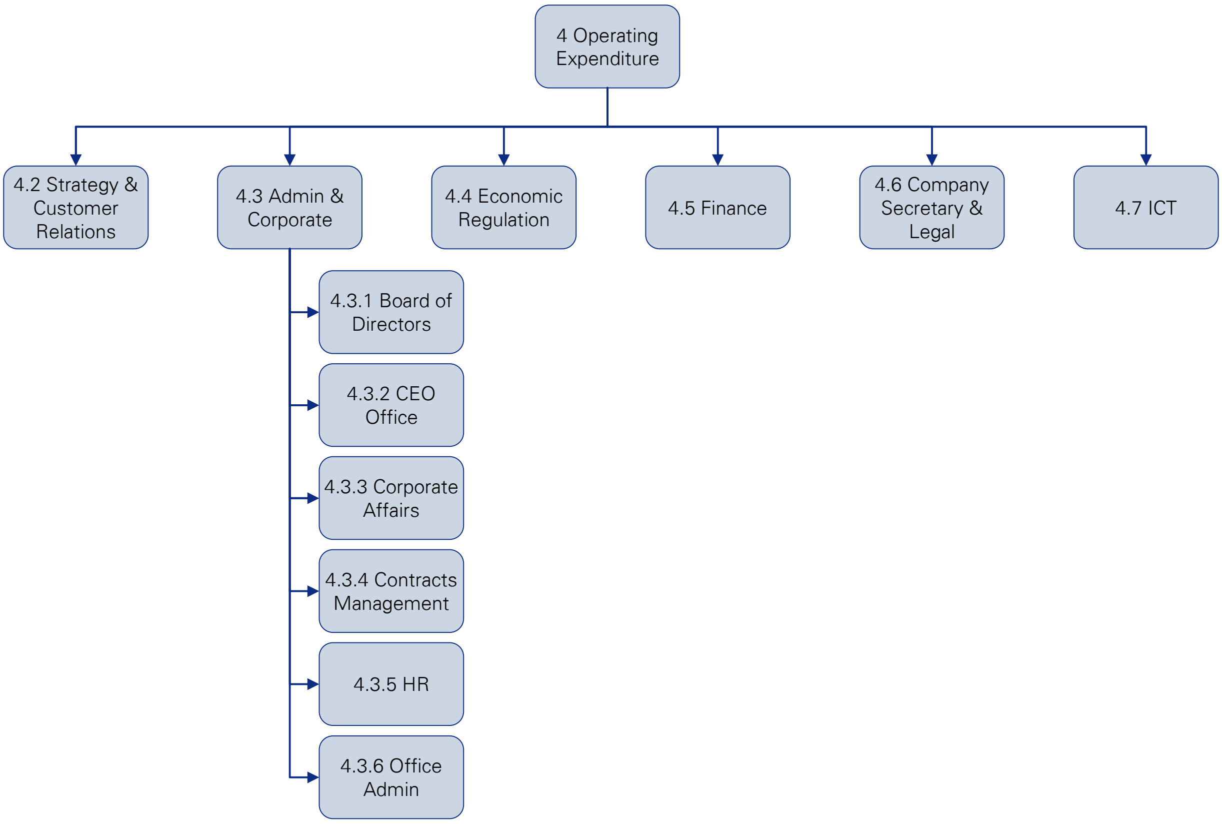
[2] Using Australian Bureau of Statistics (“ABS”)’s Index Numbers by Capital City, Brisbane, 6401.0

	Services provided by a gas distribution pipeline business	*How this relates to our cost model*
		gas distribution system have been excluded from the corporate cost model.
(iii)	Additional activities as are necessary to ensure the integrity of the gas distribution system and maintain the pipeline capability to support the delivery of gas	The costs of undertaking customer service activities necessary to respond to notification of faults, providing an emergency call centre, and customer communication costs are excluded from the model (see Appendix A.2). We have assumed that these will be incurred at the local office level. The direct costs of ensuring the integrity of the gas distribution system and maintaining the pipeline's capability to support the delivery of gas have been excluded from the corporate cost model.
(iv)	The provision of pipeline capability at each distribution customer connection point	We assume that these activities are directly related to the gas distribution system and are thus captured under "system operating" costs. They are therefore excluded from the corporate cost model.
(v)	The management, maintenance and operation of connection assets	Our Non-capital corporate cost model includes some of the costs of activities necessary to support the processes associated with dealing with customers. We have assumed that the interaction with customers for day to day issues is undertaken by the local office rather than within the corporate cost centre The direct costs of physically managing, maintaining and operating connection assets have been excluded from the corporate cost model. However, the strategic planning for the pipeline activities, including consultation on state and industry matters is undertaken at the corporate level and therefore included in the Non-capital corporate cost model.
(vi)	Management of gas volumes and throughput	This function is carried out by the Customer Relations area and included in the Non-capital corporate cost model along with IT components that provide the systems to support this process. The operation at the headquarters level manages the gas throughput at a system level including balancing orders with producers, rather than the management of individual customer issues of a day-to-day nature which are managed at the local office level.

3.3 The build up of cost model

The structure of the cost model build up is outlined in Figure 3.1 below. Section 4 of this report provides a summary of the benchmarked costs associated with each of the cost areas identified below:

Figure 3.1 Structure of Corporate Cost Model



The number references in each box correspond to the subsequent sections of this report.

3.4 Key assumptions and parameters

To ensure that our model captures only the corporate costs associated with the efficient provision of the gas distribution business, it is necessary to set out some basic parameters of this business. The scope and sizing of the activities of this business, and hence associated costs, are driven by several basic parameters which are described below:

- Customer expectations and requirements – industry standards, as reflected in the customer contracts and access arrangement;
- Government regulation and requirements – as in the laws, regulations and measures imposed by the state of Queensland (including the legislative and licence conditions);

- Annual turnover of the covered pipeline - $53 million;
- Number of connections – 80,000;
- Governance – a stand alone publicly listed company. As a distribution business is capital intensive, it is reasonable to assume that it will need to be publicly listed on the Australian Securities Exchange (ASX) to access necessary capital ; and
- Head office – located in Brisbane CBD. This is because the business would need ready access to government agencies, major suppliers and a pool of appropriately skilled labour provided by a city centre location.

3.5 Modelling principles – conservatism and minimising risk of imprecision

Conservatism

An overarching principle guiding the development of a benchmarking model is that of conservatism. Hence, this report presents a minimum estimate.

In the development of our model, we have identified the major costs associated with each corporate cost department or operation. It is likely that additional costs will be incurred by a prudent service provider acting efficiently in accordance with accepted and good industry practice. Examples of these additional costs are provided below:

- debt rollover costs of a non-capital nature such as bankers and associated professional fees;
- equity raising costs of a non-capital nature including presentations to potential investors and underwriting fees;
- travel expenses and entertainment;
- taxation planning (tax compliance is included in the finance cost benchmarks);
- credit rating agency fees;
- industry association subscriptions;
- consultancies on market and policy developments; and
- National Greenhouse Reporting (NGERS) compliance and audit costs.

This list does not attempt to be exhaustive. Rather it serves to demonstrate that the estimate of benchmark costs is intentionally conservative.

Minimising risk of imprecision and inaccuracy

Avoidance of double counting of benchmark costs

If a benchmark were to potentially include costs that have been accounted for in other benchmarks, there could be a risk of the total benchmark cost estimates double counting or overstating costs.

We have reviewed the nature of the benchmarks referenced in this report. We considered that many were not subject to this risk because the scope of costs covered by the benchmark was narrow and well defined. Benchmarks of per capita salary costs are examples. Also, Section 4 describes the build up of cost and demonstrates that there is no double counting of functions, resources or other cost components.

Risk of imprecision within benchmarks

By their nature benchmarks do not offer an exact representation of the estimated costs of a business. Rather they illustrate the range of costs which a number of businesses have incurred for any particular function. It is for this reason that in accordance with conventional practice, we have presented benchmark costs as a range of costs with a mid point. The lower and upper benchmarks represent lower and upper statistical or observed bounds. We believe that typical or expected costs are more likely to be represented by a midpoint (typically a median or mean) rather than less typical and outlying upper or lower range benchmarks.

Therefore we conclude that our findings are unlikely to be materially impacted by any apparent imprecision within the individual benchmarks.

Risk of unrealistic structure for standalone entity

We have addressed this risk by:

- using our professional expertise in cost structures and our knowledge of the gas pipeline services industry; and
- consulting with the APA Group Limited to compare our assumptions to the assumptions underlying its business model for reasonableness.

4 Benchmark cost model

4.1 Summary

The model has been constructed under the following six main cost category headings:

- Business Strategy, Planning and Customer Relations
- Administration, Executive & Corporate Costs
- Economic Regulation
- Finance
- Company Secretary & Legal Services
- Information & Communication Technology

The functions carried out in the cost categories listed above are necessary to support the gas distribution business. These functions provide the capacity to support capital raising, management of reporting and recording of transactions, management of staff and risks, governance and the delivery of services.

In modelling the stand alone corporate office for the APA Allgas Network for this benchmark report we have assembled cost centres that will undertake the activities for the gas distribution business described in Section 3.2 above.

Total costs are summarised in the table below.

Table 4-1 Overall summary table

Overall Summary	Section Ref	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Business Strategy, Planning and Customer Relations	4.2	3	305	368	431
Administration, Executive & Corporate Costs	4.3	6	1,126	1,590	2,151
Economic Regulation	4.4	2	501	673	868
Finance	4.5		899	1,153	1,462
Company Secretary & Legal Services	4.6	3	597	770	918
Information & Communication Technology	4.7		2,650	2,650	2,650
Total		**14**	**6,077**	**7,204**	**8,480**

4.2 Business Strategy, Planning and Customer Relations

This function will need to respond to enquiries for gas supply in the region, plan to maintain quality and levels of supply, assess costs, capital funding and risk management both for the maintenance of existing capacity and for any expansion, as well as renegotiating the existing contracts.

We have assumed that this unit's specific activities may include:

- market assessment and forecasting;

- assessing the implications of developments in the Queensland and national energy markets and government policies;
- identifying new business opportunities;
- working with prospective customers and retailers to promote gas usage in preference to alternative energy sources;
- promoting more efficient gas usage by existing customers, including improving existing services;
- managing key government and commercial stakeholder relationships, for example in connection with planning and developments in the region;
- renegotiating contracts with existing customers, including the monitoring of conditions that would trigger a re-opening of contract conditions or tariff alignment, such as changes in customer use; and
- strategic planning.

The table below outlines the staff numbers involved and approximate salary costs incurred in the business strategy, planning and customer relations area.

Table 4-2 Summary of Business Strategy, Planning & Customer Relations[3]

Business Strategy, Planning and Customer Relations	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Manager Government Relations	0.5	106[4]	145	185
Corporate Strategy Manager	0.5	111	140	150
Manager Business Development	0.5	128	138	178
Retail Relations Officer	0.5	101	126	136
Administrative Assistant	0.5	43	47	53
Business Development Officer	0.5	41	50	59
Total Salary Costs (inc Salary On costs)		265	323	381
Office & Accommodation Costs		40	45	50
Total	**3**	**305**	**368**	**431**

4.3 Administration, Executive and Corporate Costs

For the purposes for developing this model, we have grouped a number of cost categories under the group of 'Administration, Executive and Corporate Costs'. This includes a range of Non-Capital Costs such as the Board of Directors, the Office of the Chief Executive, Corporate Affairs, Contract Management, HR and general Office Administration.

The table below outlines the staff numbers involved and approximate salary costs incurred in the administration, executive and corporate costs area.

[3] Hays Salary Survey 2010, AIM National Salary Survey 2010; IR Remuneration Study 2007.
[4] The salary costs in this and all subsequent tables represent per FTE rates. These rates are multiplied with the respective number of allocated FTEs for the area to arrive at the overall salary costs.

Table 4-3 Summary of Administration, Executive & Corporate Costs

Administration, Executive & Corporate Costs	Ref	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Board of Directors	4.3.1	-	240	390	594
Office of the Chief Executive	4.3.2	2	529	763	1,023
Corporate Affairs	4.3.3	1	125	180	236
Contract Management	4.3.4	1	87	98	117
Human Resources	4.3.5	-	-	-	-
Office Administration	4.3.6	2	145	160	182
Total		**6**	**1,126**	**1,590**	**2,152**

4.3.1 Board of Directors

We have assumed that the business is publicly listed and a suitably skilled board of directors will govern the gas distribution business in accordance with the ASX Corporate Governance Principles and Recommendations[5] requirements.

To provide an estimate of the cost of the Board of Directors, we have undertaken a comparative analysis of representative sample of 36 listed businesses across Australia with similar capitalisations. We analysed the total directors' fees that were paid to non-executive directors in this sample to arrive at the following benchmark cost. While we note that good corporate practice suggests that public companies would normally have a minimum of 7 directors, to be conservative we have used the lower numbers of directors indicated by the companies we surveyed.

Table 4-4 Board of Directors[6]

Board of Directors	Low	Median	High
Number of Directors	4	5	6
Average Board Member Remuneration ($'000)	60	78	99
Total	**240**	**390**	**594**

4.3.2 Office of Chief Executive

We have assumed that the CEO would be supported by an Executive Assistant who would assist with the day-to-day functions of the office. We therefore have allowed for two people for this office. In addition we have assumed that some consultancy costs would be incurred by this function, and have used our professional judgement and experience to arrive at an estimated range of costs.

[5] ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, 2nd edition, August 2007

[6] Number of Directors is an average from 30 companies with similar revenue. Average Board Member Remuneration taken from first & third quartiles & median of a sample of 30 publicly listed companies of similar revenue.

Table 4-5 Office of the Chief Executive[7]

Office of the Chief Executive	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Chief Executive Officer	1	272	421	596
Executive Assistant (to CEO)	1	78	84	90
Total Salary Costs (inc Salary On costs)		350	505	686
Consultancy Costs		150	225	300
Total Salary Costs plus Consultancy		500	730	986
Office & Accommodation Costs		29	33	37
Total	**2**	**529**	**763**	**1,023**

We have allowed for consultancy costs to cover external advice to the CEO and board including, but not limited to the following:

- risk management, efficiency improvement and change management;
- business planning;
- corporate governance; and
- provision of strategic advice to the board.

4.3.3 Corporate Affairs

We have assumed that a Corporate Affairs function would be responsible for:

- handling inquiries from shareholders and investors, as well as others who might be interested in a company's stock or financial stability;
- liaising with the ASX, credit rating agencies, bankers and stock brokers;
- corporate citizenship;
- media relations;
- management of stakeholders; and
- community relations and reporting to the public on environmental matters.

To be conservative we have not included the costs of holding an annual general meeting and printing and publishing an annual report that a company would necessarily incur.

Estimates of the cost of Corporate Affairs is presented in table 4-6 below:

[7] CEO data taken from first & third quartiles & median of a sample of 30 publicly listed companies of similar revenue. Other salaries based on AIM National Salary Survey 2010.

Table 4-6 Corporate Affairs[8]

Corporate Affairs	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Corporate Affairs Manager	0.5	106	145	185
Communications Manager	0.5	106	172	238
Total Salary Costs (inc Salary On costs)		106	159	212
Office & Accommodation Costs		19	21	24
Total	**1**	**125**	**180**	**236**

4.3.4 Contracts Management

The contract management function would be responsible for all contracts with external suppliers. Staff employed in this unit would:

- negotiate and agree contracts with suppliers;
- negotiate and agree pricing arrangements;
- set performance and quality standards in contracts, and monitor against those standards;
- resolve disputes arising with contractors; and
- monitor supplier performance.

We have used a bottom up approach to for calculating the Contracts Management cost. We estimate that one FTE will be required to perform this function.

Table 4-7 Contracts Management[9]

Contracts Management	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Contract Managers	1	77	86	104
Total Salary Costs (inc Salary On costs)		77	86	104
Office & Accommodation Costs		10	12	13
Total	**1**	**87**	**98**	**117**

It is important to consider that these benchmarks represent a minimum estimate. There are likely to be significantly higher other costs such as contract audit, and legal and other costs associated with tendering, contract negotiation and agreement and dispute resolution.

4.3.5 Human Resources

These costs have been excluded from the Corporate Office cost model as our model assumes that these costs are incurred at the local office level.

[8] IR Remuneration Study, Australian Contact Centre Industry Benchmarking Report 2007; AIM National Salary Survey 2010
[9] AIM Salary Survey 2010.

4.3.6 Office Administration

We have assumed that this unit would provide services that would include reception services, inward and outward mail flow, facilities management and document and records management.

We have assumed this unit would require two people comprising one Administration/Facilities Manager and one Receptionist/Records Manager.

Table 4-8 Office Administration[10]

Office Administration	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Facilities Manager	0.5	92	104	120
Administration Manager	0.5	73	81	94
Receptionist	0.5	43	47	53
Facilities Officer	0.5	41	41	43
Total Salary Costs (inc Salary On costs)		125	137	155
Office & Accommodation Costs		20	23	27
Total	**2**	**145**	**160**	**182**

4.4 Economic Regulation

We have assumed that economic regulatory management would be the responsibility of a specific team within the Service Provider.

We have assumed that the Corporate Office will deal with the following regulatory matters:

- managing revisions to the access arrangement, responding to draft decisions and, where necessary, lodging documents that support appeals;
- setting and gaining approval of tariffs;
- compliance with operating licence conditions and managing licence conditions;
- managing day to day relationships with the economic regulator.

Gas distribution services with larger asset bases and large revenue streams may incur greater regulatory costs because of their size and complexity. However, the regulatory costs we have outlined in this report are driven largely by regulatory obligations rather than financial values, and can therefore be thought of as "fixed" costs. For example, the activities and costs of

[10] AIM National Salary Survey 2010

preparing regulatory accounts do not vary greatly between businesses of varying sizes as the processes and effort are broadly similar.

To estimate the staffing requirements for an economic regulatory function, we have used our specialist experience of advising on economic regulatory matters to estimate that a minimum of staff of two would be needed for a network of this size. The costs specified below in Table 4-9: Economic Regulation includes consultant fees. It is expected that these Regulatory Management Costs would spike when major regulatory submissions are due, however for the purposes of the benchmarking model, we have smoothed the effect of these spikes out and incorporated and allowance for them into the annual consultancy costs.

Note that in the absence of available AIM National Salary Survey benchmark specific for the position 'Manager in Economic Regulation' we have used the benchmark range from a position that we could consider have a similar cost, as such we have used the range for a Finance Executive for this position.

Table 4-9: Economic Regulation[11]

Economic Regulation	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Manager Economic Regulation	1	177	208	257
Senior Regulatory Economist	0.5	94	106	117
Secretary/Administrative Assistant	0.5	55	57	71
Total Salary Costs (inc Salary On costs)		252	290	351
Consultancy Costs		220	350	480
Total Salary Costs plus Consultancy		472	640	831
Office & Accommodation Costs		29	33	37
Total	**2**	**501**	**673**	**868**

Excluded are costs associated with the licence fee for the operation of this pipeline. We understand that the licence fee costs are local office costs and therefore excluded from the corporate costs developed in this model. Further, the licence fee is set by a relevant regulator and not a cost that is subject to assessment through benchmarking.

4.5 Finance

Finance costs include the labour, material and IT charges associated with the following main activities:

- vendor and payment processing (accounts payable);
- financial accounting;
- management accounting;
- statutory reporting, tax compliance;
- financial planning and budgeting;

[11] Hayes Salary Survey 2010, AIM National Salary Survey 2010

- treasury;
- internal audit; and
- external audit.

Benchmark costs

Benchmarks have been developed for the finance function using the functions listed above as well as an element of Information Technology costs. It presents a total cost for the unit as a percentage of corporate revenue. The report uses information provided from over 4,000 companies across Australia, Europe and the United States. The benchmark costs contain cost provisions for IT services to the Finance function. However, we have also estimated the costs of IT services for Allgas Networks as a whole. To avoid the risk of double counting IT costs, we have reduced the cost allocation for IT services contained within the Finance benchmark. The estimates of the cost of this unit are provided below.

Table 4-10 Finance[12]

Finance	Low ($'000)	Median ($'000)	High ($'000)
Revenue of Business	53,000	53,000	53,000
Percentage of Revenue	1.37%	1.77%	2.16%
Total (including provision for IT)	726	935	1,145
Reduction for IT	3.00%	3.00%	3.00%
Total for Finance Excluding IT, ASX and external audit fees	704	907	1,110
External Audit	169	213	313
Share Registry	22	28	33
ASIC Fees	4	5	6
Total	**899**	**1,153**	**1,462**

4.6 Company Secretary and Legal Services

The legal services and company secretarial function will be required to:

- ensure that the corporate entity in which assets and services are necessarily vested, meets its corporate regulatory obligations under the *Corporations Act 2001* and other applicable corporate regulations;
- deal with day to day contractual matters associated with the conduct of the outsourcing arrangements; and
- advise the board and management on matters of property law, native title, environmental obligations, gas haulage contracts, regulation and public liability claims.

We have also included the estimated costs associated with engaging specialist external legal advisers. We assume that the legal services division will require the services of specialist

[12] Finance Function Benchmarks 2008, ASX Schedule of Listing Fees, ASIC Information Sheet 30, External Audit Costs taken from first & third quartiles & median of a sample of 30 publicly listed companies of similar revenue.

external and independent legal advice on the matters outlined above and on any matters that may be potentially or actually subject to legal action from time to time.

This advice is necessary because it is not practical or cost effective for a business to retain the full range of specialist or senior legal advice that it may require in-house. We also note that in some years it would be reasonable to expect very significant costs, such as years when there are incidents that might lead to public liability claims, or appeals against regulatory decisions. However, the above estimates take into account estimates of long term average rather than abnormal, levels of activity. These costs are included in the table below as "Consultancy Costs", whose mid point represents between about 15 to 30 days of legal advice.

Table 4-11 Company secretary and legal services[13]

Company secretary and legal services	FTEs	Low ($'000)	Median ($'000)	High ($'000)
Company Secretary/General Counsel	1	198	246	264
Lawyer - Commercial	0.5	88	106	123
Junior Lawyer (assistant to GC)	0.5	89	100	111
Insurance & Compliance Officer	0.5	86	95	102
Secretary/Administrative Assistant	0.5	55	57	71
Total Salary Costs (inc Salary On costs)		357	425	468
Consultancy Costs		200	300	400
Total Salary Costs plus Consultancy		557	725	868
Office & Accommodation Costs		40	45	50
Total	**3**	**597**	**770**	**918**

4.7 Information & Communication Technology

We have assumed that an Information and Communications Technology (ICT) unit within the gas distributor would provide technology, systems and services necessary for the delivery of its corporate services and IT support for the covered pipeline. Specifically, we assume that an ICT unit would be responsible for:

- the administration and maintenance of major corporate systems (customer management, finance and accounting, materials management, and work scheduling);
- end-user products, including e-mail and calendaring, and provision of "help desk" services;
- telecommunications and IT hardware and software to support the business systems;
- data storage and management including customer usage; and
- computer systems security.

The ICT unit also provides the system for the gas management process which monitors and manages inputs and outputs of the gas system on a daily basis to ensure there is sufficient gas to meet customer demands.

[13] AIM National Salary Survey 2010, Hays Salary Survey 2010

We have used an empirical benchmark taken from the 2007 IT benchmarking report undertaken by KPMG[14] to estimate the costs of an ICT unit within the gas distributor. This benchmark was chosen because:

- it is comprised of costs from Australian regulated utility businesses, whereas other benchmarking reports are less specific in their scope; and
- it is relevant to the specific data management issues within distribution business including the need to manage data for a large the number of customer connections.

In this instance the benchmark relevant to the above factors, is a representative single figure, not a range.

Table 4-12 Information and Communication Technology[15]

Information and Communication Technology	Low ($'000)	Median ($'000)	High ($'000)
Revenue of Business	53,000	53,000	53,000
Percentage of Revenue	5.00%	5.00%	5.00%
Total	**2,650**	**2,650**	**2,650**

4.8 Key Assumptions

Key assumptions in the development of costs in this model include labour on-costs, accommodation costs, and office overheads. These are developed in the sections below, and applied in the departmental cost build-up in our cost model above.

4.8.1 Statutory on-costs of employment

Salaries alone do not represent the full cost of employing staff. In addition, there are a range of ‘on-costs’ that are incurred with employment of people. The table below presents the ‘on-costs’ which we have assumed to be relevant for a Queensland employer.

Table 4-13 Employment On costs

Calculation of Salary On costs	Percentage of Salary	Source
Payroll tax	4.75%	Queensland Government – Office of State Revenue
Superannuation	9.00%	Australian Taxation Office[16]
Long service leave	1.75%	Fair Work Online
Workers’ compensation	0.47%	Work Cover Queensland
Leave loading	1.35%	Fair Work Online
Total	**17.32%**	

To represent the full cost of employment, we have applied the relevant employment on-costs from Table 4-13 to the salary benchmarks for employees.

[14] KPMG Utilities IT Benchmarking Survey 2006/07
[15] KPMG Utilities IT Benchmarking Survey 2006/07
[16] The calculations consider the maximum superannuation contribution base.

4.8.2 Accommodation costs

The business would require offices to accommodate corporate staff. This would normally include space for:

- work areas;
- circulation and access areas;
- common areas;
- meeting rooms; and
- reception.

For the 'bottom up' benchmarking, we have assigned each FTE to either a workstation or an office and calculated the accommodation costs accordingly. Employees who work in areas which have been costed using empirical benchmarks (Finance and IT) are not included in this calculation because their office accommodation costs are assumed to be included within the empirical benchmark cost for that department. Based on our benchmark data offices typically have a higher floor space provision than a workstation. These benchmarked costs are outlined in the table below:

Table 4-14 Office Accommodation Space Costs[17]

Office Accommodation Space Costs	Low ($)	Median ($)	High ($)
Total annual cost per workstation	3,289	3,289	3,289
Total annual cost per enclosed office	11,213	11,213	11,213

Based on this information, we have calculated the following annual cost for office rental and accommodation in the Brisbane CBD outlined in the table below.

Table 4-15 Total Office Rental Costs

Total Office Rental Space costs	Workstations	Enclosed offices	Low ($)	Median ($)	High ($)
Business Strategy, Planning and Customer Relations	2	1	17,791	17,791	17,791
Administration, Executive & Corporate Costs	4	2	35,581	35,581	35,581
Economic Regulation	1	1	14,502	14,502	14,502
Finance	-	-	-	-	-
Company Secretary & Legal Services	2	1	17,791	17,791	17,791
Information & Communication Technology	-	-	-	-	-
Total	9	5	85,664	85,664	85,664

[17] Queensland Government Office Accommodation, *Workspace & Fit out Standards 2010;* CBRE - Market View - Brisbane Office - First Quarter 2010.

4.8.3 Corporate Office overhead costs

Our benchmark assumptions for office overhead costs include:

- electricity;
- office consumables and stationery;
- telephone and fax;
- non-specialist staff training; and
- on-site security.

As with accommodation costs and an allocation for office overhead costs has been included for each of the FTE assigned through the 'bottom up' benchmarking. The table below presents the benchmark general office overheads:

Table 4-16 Corporate Office Overhead Costs[18]

Total Corporate Office Overhead costs	Workstations & offices	Low ($)	Median ($)	High ($)
Business Strategy, Planning and Customer Relations	3	20,101	25,359	30,910
Administration, Executive & Corporate Costs	6	40,202	50,718	61,820
Economic Regulation	2	13,820	17,465	21,349
Finance				
Company Secretary & Legal Services	3	20,101	25,359	30,910
Information & Communication Technology				
Total	14	94,224	118,900	144,989

[18] Property Council of Australia Benchmarks 2009 – Survey of Operating Costs Brisbane Office Buildings

A Reconciliation of categories included in model

For the avoidance of doubt, we have prepared a table of cost categories, and indicated whether they have been included or excluded for the model assumptions.

A.1 Categories included in model

Category	*Included our corporate cost model*
Senior management and board	Yes
Company secretary functions including AGM, shareholder reporting, shareholder management and ASX listing compliance	Yes
Finance including tax, treasury and statutory reporting as well as accounts receivable and payable	Yes
Audit and risk management	Yes
Information technology	Yes
Legal	Yes
Regulatory	Yes

A.2 Categories excluded from model

Category	*Note*
Operations managements	Excluded from the model – classified as a system operating cost.
Procurements	
Asset management and engineering	
Marketing	Excluded from this model as these costs are charged locally.
Call Centre	Due to small customer number, there is no typical high volume 'call centre' but rather a contact centre including after hours contact facilities for faults and emergencies.
Human resources	The majority of human resources activity is incurred at the local office level, and therefore excluded from the Corporate Office cost model.
Licence fee	Licence fees are included in the local operations and maintenance costs.
Insurance premiums	Specific to the nature of the risk and excluded from the corporate cost benchmark. However the costs of managing insurance are included in the FTE under the Legal Counsel / Company Secretary & Corporate Affairs team.
Billing, Revenue Collection & Protection	Excluded from this model as these costs are charged locally.

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Statement in relation to previous KPMG report

I, Keith Lockey of KPMG, am the author of the following report that has been submitted by APA Allgas Pty Ltd (**Allgas**) as part of the review of Allgas' proposed revisions to its access arrangement being conducted by the Australian Energy Regulator:

- "APA Group Limited - Corporate Cost Benchmarking – APA Allgas Networks" – dated September 2010.

In relation to this report, I state as follows:

- my qualifications are attached (appendix 1);
- I was assisted in the writing of the report by Robin Holmes, whose qualifications are attached (appendix 2); and
- a list of the key literature or other material used in making the report is attached (appendix 3).

Keith Lockey
Executive Director

Date: 22nd September 2010

Appendix 1 — CV for Keith Lockey

Keith Lockey

Executive Director

Economics, Infrastructure and Policy Group

Location	Melbourne
Education	BSc (Hons) (Environmental Sciences), University of Lancaster
Professional qualifications	Associate Chartered Accountant. Institute of Chartered Accountants in England and Wales
Country experience	Australia, 17 years UK, 11 years USA, Europe, Middle East, NZ, Asia - project based

Background

Keith co-leads KPMG's specialist group that advises governments and participants in utility and other economically regulated industries on matters of industry reform, economic regulation and pricing and funding arrangements.

He has worked exclusively in this area since the inception of National Competition Policy in Australia and has wide-ranging experience of advising on and managing utility reform and its consequences.

Keith has over 13 years experience and has advised regulators and businesses on regulatory accounting and cost allocation and efficiency issues in the utilities sector. He has a detailed knowledge of Australian regulatory accounting requirements for utilities, including drafting many of the original principles which regulators have subsequently adopted and developed.

Experience

Regulatory reporting of cost allocations and efficiencies

WestNet – Assistance with overhead cost identification. Keith assisted WestNet to:

- develop cost allocation criteria likely to be acceptable under National Gas Rule 93(2) in the absence of detailed guidance or precedents; and
- identify WestNet's corporate costs, likely to be recoverable under the National Gas Rules.

Keith also undertook a benchmarking exercise to assess the efficiency of the identified costs.

APA Group – Goldfields Gas Transmission Pipeline – Corporate Cost Benchmarking. Keith provided a benchmarking report and supporting schedules to support the calculation of a benchmark corporate cost for a gas transmission business.

Legal advisors to The APA Group – Independent report on a management fee claimed as a recoverable cost under the Gas Code. Keith was engaged as an expert witness to report on the efficiency of the business's cost structures. This included benchmarking, examining and explaining how operational requirements for organisational structures led to costs, and benchmarking those costs to demonstrate their efficiency. An Appeal Tribunal accepted the report and agreed that the management fee was a recoverable cost.

Legal advisors to Multinet - Independent report on a management fee claimed as a recoverable cost under the Gas Code. Keith was engaged as an expert witness to report on the efficiency of the business's cost structures. Keith used benchmarks, cost modelling of staffing structures and referred to corporate legal and regulatory obligations to provide an independent assessment of the efficient non-capital costs of a distribution business where management and governance services are provided to the business by other entities. Following the submission of this report, the regulator's Final Decision substantially increased the amount of recoverable non-capital cost.

Electricity Transmission Network Owners Forum (ETNOF) - Transmission Cost Allocation Guidelines 2007. Keith assisted ETNOF to critique and draft a submission on Cost Allocation Guidelines published by the Australian Energy Regulator.

Transend Networks Ltd. Keith led a KPMG team that drafted a "Cost Allocation Methodology" required by the Australian Energy Regulator, and for Transend, an accompanying cost allocation and regulatory reporting procedures and process manual.

Related party transactions. Keith advised a network business on the business risks and regulatory implications of regulatory requirements for related party disclosures, that were inconsistent with Accounting Standards.

Electricity industry regulatory accounting guidelines. Keith was engaged by industry to critique the *Queensland Competition Authority's Guidelines* (2005). He demonstrated its significant practical limitations and inconsistencies with Accounting Standards.

Electricity industry ring-fencing guidelines. Keith provided an electricity utility with a draft submission on the jurisdictional regulator's draft guideline. He demonstrated significant practical difficulties that also would not have assisted the regulator to achieve his objectives.

Independent Pricing and Regulatory Tribunal of NSW – Review of audit requirements for electricity industry price cap variables. Keith was engaged by IPART to provide an independent critique of criticism of the audit reporting regime and recommended changes to make it more light-handed and consistent with Auditing Standards.

Independent Competition and Regulatory Commission, ACT – Licensed electricity, gas, water and sewerage utilities Performance reports 2003-04, 2004-05 and 2006-07. Keith led small KPMG teams that provided the ICRC with substantial assistance to compile these comparative performance reports and commentaries.

Accounting Information for Office of the Regulator-General, Victoria. Keith surveyed the accounting and management information capabilities of regulated business to help the regulator determine appropriate information requirements.

AER/Australian Competition and Consumer Commission – Accounting Ring Fencing Guidelines for Gas Transmission Businesses. Keith critiqued a jurisdictional regulator's guideline as a basis for accounting ring fencing for gas transmission pipeline service providers, and subsequently drafted a guideline for the Commission.

Major New Zealand gas distribution and transmission business – Advice on regulatory accounting requirements. Keith assisted a major gas network business to comply with the New Zealand Commerce Commission's Avoided Cost Accounting Method ("ACAM") for regulatory financial reporting.

Office of the Tasmanian Electricity Regulator – Electricity Industry Regulatory Accounting Guidelines. Keith developed regulatory accounting guidelines for distribution and transmission businesses.

Review of regulatory accounting submission. Keith has been engaged by different electricity networks to review regulatory accounts for compliance with regulatory requirements, prior to submission.

ACCC – Review of Airport Regulatory Accounts. Keith undertook a high level review of the first airport regulatory accounts submitted to the ACCC. The objective was to also assess airport operator compliance with the guidelines issued by the ACCC.

*Australian Competition and Consumer Commission – Review of Electricity Transmission Business Co Regulatory Information Guideline*s. Keith reviewed and provided advice to the ACCC on proposed regulatory information guidelines and subsequently drafted revised Guidelines that were published in 2001.

Office of Regulator-General, Victoria ("ORG"). Shortly after its establishment, Keith was seconded to the ORG for a 15 month period to manage and implement the process of acquiring and analysing regulatory accounts from electricity distribution businesses. He also provided the ORG with day-to-day advice on regulatory financial and accounting issues.

ACCC. Keith organised and participated as a key speaker at a one-day workshop held with the ACCC on regulatory accounting, that explored both issues of principle and practice.

Office of the Regulator-General, Victoria. Keith initiated the first practical steps to obtain regulatory accounting information from electricity distribution businesses in Victoria.

Gas

Gas industry licensing and code regime in South Australia. Keith worked with the Essential Services Commission of South Australia to develop the industry licensing and code regime and associated regulatory requirements.

Cost allocation in the gas industry. Keith has worked with gas pipeline operators in Australia and New Zealand to develop and explain regulatory models to attribute costs to pipeline businesses.

Development of a cost allocation model for gas businesses. To assist a gas business gain regulatory approval for access arrangements, Keith led a KPMG team that developed a cost allocation model.

Gas Access Arrangements - Independent Pricing and Regulatory Tribunal New South Wales ("IPART"). Keith helped to analyse pricing proposals included in a major pipeline operator's Access Arrangement proposal. This work included the development of a financial model and options for cost allocation. Keith has also reviewed for IPART pricing and cost allocation models.

Gas & Fuel Corp. Keith conducted a benchmarking review.

Electricity

Transpower New Zealand – Network operating cost benchmarking. Keith advised on the robustness of its approach to benchmarking network operating costs for regulatory purposes.

Electricity industry disaggregation and reform in Korea. Keith led KPMG teams that:

- reviewed the draft pool rules for the Korean electricity market and advised the vertically integrated Korea Electric Power Corporation (KEPCO) on the practical implications for the disaggregation of distribution and retail businesses;
- developed demand side management strategies for the disaggregated businesses; and
- assisted with development of a pool price risk management strategy ("vesting contracts") for KEPCO.

Network revenue submission. Keith advised the Northern Territory's Power and Water Corporation on its submission.

Assessment of potential for cross-subsidies in a vertically integrated energy utility. Keith reviewed the potential for economic cross-subsidies both within the utility and with other parties.

NEM Entry Costs. Keith advised a utility on how the capital and operating costs associated with NEM entry might be recovered through regulatory pricing mechanisms.

Independent Pricing and Regulatory Tribunal of NSW – Review of electricity industry regulatory model. Keith led a team that provided an independent review of the robustness of its electricity network pricing model.

Business Analysis Modelling in the Electricity Industry. Keith was involved in designing a financial model of the Victorian electricity distribution businesses.

Department of Treasury and Finance Victoria – Review of Distribution Business ("DB") Submissions to the 2001 Electricity Price Review. Keith advised on the implications of the DB submissions.

Electricity Industry Enquiry Panel – New Zealand Regulatory Information Requirements. Keith compared regulatory information and reporting requirements between regimes in Australia and the UK, in the context of the New Zealand regulatory environment.

Energy retailing

Electricity retailer gross margin benchmarking. Keith has undertaken a range of benchmarking studies for retailers (and network businesses) to establish benchmarks of operating costs and margins. This involved both empirical and analytical comparisons, the latter building up cost models based on benchmarked inputs.

Assessment of a gross retail margin for franchise electricity retailers. Keith led a KPMG team that was engaged by Queensland Treasury to assess a benchmark for efficient gross margin.

Assessment of cost allocations and the bases of CSO payments for electricity supply. Keith advised the NT Power and Water Authority on appropriate responses to government guidelines on and a regulator's review of, these issues.

Water

Water Utility – Assessment of efficient overhead and indirect costs for regulatory purposes. Keith advised a major utility on the potential for efficiency improvements in indirect and overhead costs. This included reviewing cost accounting and allocation processes, and staffing structures.

Other

Financial Modelling – Forecasting. Keith has completed numerous assignments which required the production of cost forecasting models to help analyse the financial implications of proposed transactions. Financial modelling assignments include assessing significant transactions for Crown Casino, Wool International, Gold Mines of Kalgoorlie, Bell Resources and ACI.

Benchmarking training – University of Melbourne and Council of Capital City Lord Mayors. In these engagements, Keith provided both benchmarking training and advice on its practical implementation.

Legal advisors to BHP Billiton (BHPB) - Options for providing access to the Mt Newman railway. Keith provided an independent report on the commercial and regulatory options for providing access, in connection with the access dispute between BHPB and the Fortesque Mining Group.

Appendix 2 — CV for Robin Holmes

Robin Holmes

Director

Economics, Infrastructure and Policy Group

Location	Adelaide
Education	Bachelor of Arts in Accounting (University of SA)
Professional qualifications	Associate – Institute of Chartered Accountants in Australia
Country experience	Australia, CIS (Russia), USA, Oceania

Background

Robin works almost exclusively on regulatory and reform matters, having previously worked in Corporate Finance, Audit and Corporate Insolvency.

Robin advises government and industry on regulatory matters principally in the energy and utilities sector, and other businesses on a range of commercial matters including modelling and forecasting. Since 1998, Robin has been advising regulated businesses in electricity and gas transmission and distribution in Australia and overseas, and the State Governments of Queensland, Victoria and South Australia on electricity pricing and related matters, stakeholder management, submission of revenue proposals and associated issues to regulators and advising bidders for the purchase of assets in other regulated industries.

Over the past twelve years, Robin has gained valuable experience in the energy and infrastructure sectors in Australia developing complex financial models using his knowledge of the physical assets used in the gas and electricity markets.

Specific experience – examples

Gas

APA Group – Goldfields Gas Transmission Pipeline – Corporate Cost Benchmarking. Robin assisted in providing a benchmarking report and supporting schedules to support the calculation of a benchmark corporate cost for a gas transmission business.

Envestra Limited – tariff modelling - Robin provided the quality assurance role on a tariff model developed for allocating costs across different customer segments and calculating the tariff revenues for those customer segments. The model will provide a tool to test tariff design for gas distribution tariffs.

Envestra Limited (2008) - Robin was part of a team that provided expert witness support to the derivation of an efficient cost model for a benchmark business operating gas networks across three regions for a gas access arrangement.

Envestra Limited (2006-07) - Robin assisted in the preparation of a report for an energy networks operator supporting the costs to be recovered through a regulated revenue calculation being challenged by a state based energy regulator. Robin was involved in the development of supporting particular costs in their own right, and through the development of benchmark costs for a similar sized network business.

Robin has provided advice on regulatory matters and Revenue Reset submissions to:

Envestra	Goldfields Gas Pipelines,	APA Group,
Origin Energy	APA – Allgas Networks	

Electricity, regulatory and commercial experience

Integral Energy - Robin assisted Integral Energy with the interpretation of data from a Post-tax Revenue Model in a valuation and impairment testing model for financial reporting. The advice included the analytical testing of the business model against the AER's PTRM for matters of consistency.

Aurora Energy Networks - February 2010, Robin presented to Aurora Energy on regulatory matters concerning the transition from a pre-tax regulatory approach to the AER's post-tax regulatory approach.

ETSA Utilities - December 2009, Robin assisted ETSA Utilities with the preparation of material in support of operating cost arguments for Self-insurance costs submitted as part of a regulatory submission to the Australian Energy Regulator.

United Energy - In late 2009, Robin assisted an electricity distributor with the preparation of data for an upcoming revenue reset submission. The process involved the development of a testing regime to examine a significant number of financial models used to build the forecast operating costs of the organisation. The testing performed by KPMG was designed to identify errors based on a predetermined approach, and to reduce the risk of forecasting error.

ETSA Utilities - In September 2008, Robin was engaged by ETSA Utilities to perform a brief analysis of the distribution PTRM offered by the AER for the regulation of distribution revenues. The analysis indicated that the revenue model had a material number of flaws in a number of asset classes which would render then unusable.

ETSA Utilities - In August 2008, Robin was engaged by ETSA Utilities to examine some of the revenue implications of the move from pre-tax to post-tax modelling methodologies associated with the transfer of economic regulation responsibilities to the Australian Energy Regulator.

Energy Australia - In May 2008, Robin was part of a team that examined the use of the AER's Post-Tax Revenue Model for Energy Australia, and in particular the changes in logic for the PTRM published for electricity distribution businesses.

ETSA Utilities - In early 2008, Robin made a presentation to the ETSA Utilities strategic planning workshop on current regulatory thinking, to address issues that would help define the principles for the ETSA Utilities reset strategy.

Transpower NZ - In April 2007, Robin commenced an assignment to look at the comparison of operating costs of Electricity Transmission Network Operators in Australia for an overseas Transmission Network Operator wishing to make a comparison as part of a regulatory pricing submission.

Confidential - Robin assisted an Australian based investor with due diligence associated with an investment in an international wind farm based in the UK. The assessment included a critical analysis of some of the input assumptions which were compared to current Markey data gathered during the process. The modelling included initial capital investment and ongoing operating costs for the economic life of the project.

ETSA Utilities – Robin assisted ETSA Utilities in the development of costs that supported an application for a revenue reset process through the benchmarking of corporate costs of a similar sized electricity business.

Energy Australia and others - In April 2007, Robin prepared analysis for an electricity distribution business considering the impacts of alternate approaches to the derivation of building block revenues. The calculations included a comparison of a specific pre-tax real; approach with a post-tax nominal approach close to the Australian Energy Regulator's (AER's) approach to electricity regulation.

Office of the Tasmanian Energy Regulator - From February to June 2005, Robin assisted the Office of the Tasmanian Energy Regulator with the development of transmission standards for the entry of Tasmania to the Australian National Electricity Market. His input to the project included research and analysis of data regarding the value of customer interruptions in the electricity sector and levels of security across the Tasmanian transmission network.

Department of Treasury in NSW and the Essential Service Commission in SA - In 2005, Robin conducted electricity energy retail focus groups in regional and rural NSW and South Australia as part of the willingness to pay studies for the Department of Treasury in NSW and the Essential Service Commission in SA.

Department of Treasury and Finance - In 1998 to 2000, Robin was part of the Regulatory Advisory Group that advised the South Australian government in Electricity Industry reform matters. During that project, Robin was responsible for the development of electricity codes and licences, connection agreements and other regulatory instruments that formed the foundation of the regulatory framework. The Transmission code developed during this process introduced a set of Transmission Standards for the South Australian transmission network operator. This was the first set of transmission standards in Australia.

Robin has provided advice on regulatory matters and Revenue Reset submissions to:

ETSA Utilities	ElectraNet,	Powerlink,
Energy Australia,	Integral Energy,	United Energy Distribution
Power and Water Authority,	Aurora Energy,	Transpower, and
	TransGrid.	

Energy Markets

Adelaide Brighton Limited - Robin assisted in the review of a business entering the national gas market and taking pool exposure through market participation in the Short Term Trading Market due to commence in September 2010.

Adelaide Brighton Limited - In February 2006, Robin examined the controls and operations of a power purchasing arrangement that resulted in the exposure of the business to the Australian Electricity Market – Wholesale Pool. The assignment involved analysis of electricity market data and specific consumption patterns at various sites to determine the reactions to wholesale pool prices.

Department for Transport Energy and Infrastructure - In 2007/07 Robin assisted the Department respond to issues raised by the Federal Smart Meter working group. Robin assisted the department with a number of practical issues associated with the cost benefit analysis of smart electricity meters.

Adelaide Brighton Limited - During 2002 to 2004, Robin has provided market analysis of an energy procurement policy for a business operating in the wholesale electricity pool, applying the policy to prior market conditions to establish the cost/benefit analysis and risks of applying the policy to future periods.

Department of Treasury and Finance - From April to July 2004, Robin was project manager for the Energy Transfer Rebate and Concessions project for the SA Department of Treasury and Finance. This project resulted in the installation of a concessions verification process with electricity retailers and federal government concession holder data, to ensure that state government funded concessions on energy bills was adequately supported. It also enabled the system for transfer rebates initiated by the state government for customers transferring to the contestable electricity market.

Water

SA Water – Unbilled revenue - In March 2020, Robin provided advice to SA Water on the application of a calculation methodology that prepared a value for unbilled revenue from water sales.

Department for Environment and Heritage - During 2009, Robin was part of the team that prepared a Business Case for the development of solutions for the Coorong, Lower Lakes and Murray Mouth. The Business Case was developed to document and support a $200m Commonwealth Funding Grant for the region. Robin assisted with the development of costing models that extracted information from technical papers and managed the development of high level cost benefit analysis by the economics team that identified the benefits of the program. The Business case was submitted to the Commonwealth in 2010.

Office of Water Security - In June 2009, Robin assisted the Office of Water Security in South Australia with the development of an application for Commonwealth Government Funding for storm water projects for a number of Adelaide based Local Government Authorities and State Government departments.

SA Water - During 2008 and early 2009, Robin was part of the Commercial team supporting the development of a procurement process, then the implementation of that procurement to assist SA Water with the contract, request for proposal and other documents supporting the procurement of a $100m water security project.

SA Water - During 20017 and 2008, Robin was part of the team assisting SA Water with Commercial and Governance matters on the Adelaide Desalination Project. Robin assisted with the project management of the Business Case, coordinating development of the document, including material from the cost modelling team, engineering, economics, and business and customer pricing impacts. The document was used to support the Cabinet Submission for project approval.

Department of Treasury and Finance - Over the period August to December 2008, Robin supported a model review team with regulatory technical modelling advice during the examination of SA Water pricing models for the Department of Treasury and Finance.

SA Water - In October 2008, Robin prepared a paper on the weighted average cost of capital for regulated water businesses which will be used to assist SA Water with arguments for a change in the Pre-tax Real WACC used in the pricing decisions in the future. The paper was prepared during, and recognises significant change associated with the Global Financial Crisis of 2008.

Independent Pricing and Regulatory Tribunal in New South Wales (IPART) - Over the past few years, Robin has been engaged by the Independent Pricing and Regulatory Tribunal in New South Wales to examine a number of water pricing models, a process which includes the preparation of an assumptions book, defining the main assumptions applied in the regulatory pricing models as a way of exposing the explicit and implicit assumptions used in a regulatory determination.

Other – including ports and rail

The Pilbara Infrastructure (Fortescue Metals Group) - In 2010, Robin provided regulatory modelling advice to The Pilbara Infrastructure group on the forecasting of costs and recovery mechanisms to develop a pricing regime compliant with principles approved by the WA regulator. The pricing regime initially covered the development of a rail infrastructure costing model, which was expanded using the same methodology to incorporate ports and above rail operations. The model sets prices for the recovery of capital and operating costs in accordance with regulatory principles approved by the Economic Regulatory Authority.

Flinders Ports - Robin was part of the commercial advisory team advising Flinders Ports on the acquisition of the South Australian ports infrastructure operations previously owned by the SA

Ports Corporation. Robin's role was to advise on regulatory strategy and revenue recovery issues associated with operating within an economic regulatory regime in SA.

Tasmanian Fire Service - In early 2009, Robin provided subject matter experience to a review of funding requirements associated with the Tasmanian Fire Service.

Government advisory

Department for Transport Energy and Infrastructure - In April 2010, Robin commenced a project preparing a model of the costs and capabilities of seven state based jurisdictional regulators which will be amalgamated as part of the COAG reforms in Rail Safety Regulation. The project involves the consultation with each state based office and the identification of costs and associated functions to define the "as is" status for subsequent Commonwealth reform.

Department for Transport Energy and Infrastructure - In mid 2008, Robin was part of the team that performed analysis on a new road project, including the calculation of costs and benefits for a state wide economy model to assess the economic impacts of the project during construction and beyond.

Department of Human Services - During February and April 2003, Robin developed a financial model to assess the build/lease options available to the Department of Human Services in South Australia for the development of a new multi service medical facility with a joint venture partner south of Adelaide.

Appendix 3 – The key literature or material used in making the report

KPMG, Corporate Cost Benchmarking – APA Allgas Networks (September 2010)			
#	**Material**	**Reference in GGT material or expert report**	**File reference in PDF worksheets**
1	Australian Bureau of Statistics, Cat. No. 6401.0, Consumer Price Index Numbers by Capital City	Fn 2, p.5	*Ref 01 – ABS Cat No 6401-0.pdf*
2	Hays Salary Survey 2010	Fn 3, p.11 Fn 11, p.16 Fn 13, p.18	*Ref 02 – Hays Salary Survey 2010.pdf*
3	AIM National Salary Survey 2010	Fn 3, p.11 Fn 7&8, p.13 Fn 9, p.14 Fn 10, p.15 Fn 11, p.16 Fn 13, p.18	*Ref 03 – AIM National Salary Survey 2010.pdf*
4	ASX Corporate Governance Principles and Recommendations, 2nd edition, 2007	Fn 5, p.12	*Ref 04 – ASX Corporate Governance Principles and Recommendations 2007.pdf*
5	Number of board members and remuneration: 1st and 3rd quartiles and median of a sample of 30 publicly listed companies of similar revenue	Fn 6, p.12 Fn 7, p.13	*Ref 05 - Number of Board Members and Remuneration.pdf*
6	IR Remuneration Study 2007	Fn 3, p.11 Fn 8, p.13	*Ref 06 – IR Remuneration Study 2007.pdf*
7	Australian Contact Centre Industry Benchmarking Report 2007	Fn 8, p.13	*Ref 07 - Australian Contact Centre Industry Benchmarking Report*

KPMG, Corporate Cost Benchmarking – APA Allgas Networks (September 2010)			
#	**Material**	**Reference in GGT material or expert report**	**File reference in PDF worksheets**
			2007.pdf
8	Finance Function Benchmarks 2008	Fn 12, p.17	*Ref 08 – Finance Function Benchmarks 2008.pdf*
9	ASX Schedule of Listing Fees	Fn 12, p.17	*Ref 09 – ASX Schedule of Listing Fees.pdf*
10	ASIC Information Sheet 30	Fn 12, p.17	*Ref 10 – ASIC Information Sheet 30.pdf*
11	External Audit Costs: 1st and 3rd quartiles and median of a sample of 30 publicly listed companies of similar revenue	Fn 12, p.17	*Ref 11 – External Audit Costs*
12	KPMG 2006-07 Utilities IT Benchmarking Survey	Fn 14, p.19 Fn 15, p.19	*Ref 12 - KPMG 2006-07 Utilities IT Benchmarking Survey*
13	QLD Gov Office Accommodation, Workspace & Fitout Standards 2010	Fn 17, p.20	*Ref 13 - QLD Gov Office Accommodation, Workspace & Fitout Standards 2010*
14	CBRE Market View – Brisbane Office – First Quarter 2010	Fn 17, p.20	*Ref 14 - CBRE Market View – Brisbane Office – First Quarter 2010*
15	Property Council of Australia Benchmarks 2009 – Survey of Operating Costs Brisbane Office Buildings	Fn 18, p.21	*Ref 15 - Property Council of Australia Benchmarks 2009 - Survey of Operating Costs Brisbane Office Buildings.pdf*