

January 31, 2022

**Murraylink Transmission
Determination 1 July 23 to 30
June 28
Basis of Preparation**

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1 Introduction

On 23 September 2021, the Australian Energy Regulator (**AER**) issued Murraylink Transmission Company Pty Ltd (**Murraylink**) with a Regulatory Information Notice (**RIN**) under Division 4 of Part 3 of the National Electricity (South Australia) Law and National Electricity (Victoria) Law (NEL).

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

As per the requirement of Schedule 2 of the RIN, this Basis of Preparation document applies to “all information other than forecast information” reported in the Microsoft Excel Workbooks (**Workbooks**), attached at Appendix A of the RIN.

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

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

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

- The Workbooks have been prepared in accordance with the requirements of the RIN and definitions as set out in Appendix 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 31 January 2022.

1.2 Definitions of actual, estimated information and material

1.2.1 Actual information

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

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

'Accounting records' include trial balances, the general ledger, subsidiary accounting ledgers, journal entries and documentation to support journal entries. Actual financial information may include accounting estimates, such as accruals and provisions, and any adjustments made to the accounting

records to populate Murraylink's regulatory accounts and responses to the notice. 'Records used in the normal course of business', for the purposes of non-financial information, includes asset registers, geographical information systems, outage analysis systems, and so on.

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

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

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

1.2.2 Estimated information

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

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

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

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

Estimated information has not been reported as Murraylink has reported in its Workbooks actual financial and non-financial information, refer to paragraph 1.2.2 Estimated information.

1.2.3 Material

Appendix F, attached to the RIN, defines material information as follows:

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

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

1.3 Assurance requirement

In accordance with Appendix C of the RIN, assurance is required on the historical information in the Workbooks attached at Appendix A:

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

Assurance is required for historical non-financial information reported in the Workbooks, however, as per paragraph 1.4 of Appendix C of the RIN, the review of the non-financial data does not include information provided to the AER in response to paragraphs 8.1(a) and 8.2(a) of Schedule 1 of the RIN (i.e. the information reported as part of Table 7.9 Service Target Performance Incentive Scheme, of Workbook 1 Forecast and Historical).

1.4 Rounding

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

2 General overview and information

2.1 Network-specific information

2.1.1 Murraylink electricity transmission interconnector

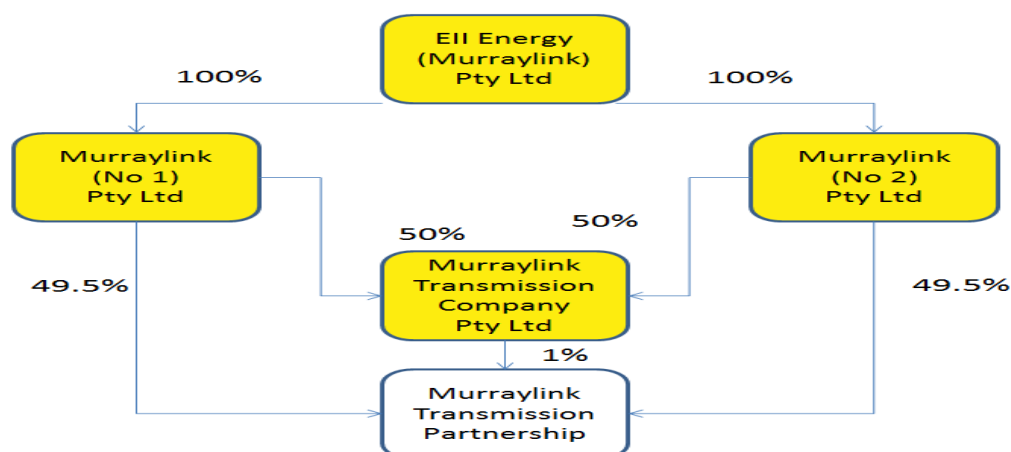
Murraylink delivers electricity between the South Australian and Victorian regions of the National Electricity Market (**NEM**). Murraylink consists of a single high voltage direct current (**HVDC**) transmission line, approximately 176 kilometres long, with converter stations at Red Cliffs, Victoria and Berri, South Australia. Murraylink has capacity to deliver 220 megawatts of power into the alternating current (**AC**) network in either state.

2.2 Corporate structure

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

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

Figure 1.1 – Energy Infrastructure Investments corporate structure



2.3 Sources of information

2.3.1 Financial information

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

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

project reporting provide details on the activity type of the costs, reflecting categories of capital, operating and maintenance activities and services.

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

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

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

2.3.2 Non-financial information

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

2.4 General methodology and principles

2.4.1 Financial information

Workbooks have been populated from the Murraylink Regulatory Accounts.

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

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

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

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

The Murraylink entities form part of the Energy Infrastructure Investments Pty Limited (ABN 95 104 348 852), the parent entity (refer to paragraph 2.2), which as a consolidated entity is required to prepare and lodge audited financial statements with ASIC.

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

All amounts for historical periods (i.e. pre to 1 July 2021) are presented in nominal terms.

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

2.4.2 Non-financial information

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

2.5 Maintaining information

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

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

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

3 Workbooks

3.1 Entry of variables

Appendix E, attached to the RIN provides:

3.1.1 Variables in yellow cells

“Yellow cells require input, with no exceptions. If a yellow cell is not applicable to Murraylink in accordance with this document, the input will be ‘0’. If a yellow cell is not applicable to Murraylink in accordance with this document, the cell will be left blank as a ‘NULL’ response. If Murraylink wants to input a zero value, the input will be ‘0’ or “-“. There may be several variables that fall into this category. Some examples include the energy delivery variables, revenue variables, or assets at voltages that Murraylink does not operate.

For all variables, Murraylink should consider the variable as a question and the input it is providing as a response to the question.”

“Murraylink must not enter ‘0’ because Murraylink considers it would be difficult or burdensome to provide the information.”

In preparing the Workbooks, Murraylink has relied on the explanations detailed above and have applied the following, if any yellow cells:

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

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

4 Actual Capital expenditure (Capex) reported in Workbooks

4.1 Capex reported in Workbooks

Murraylink’s actual capex is reported in the Workbooks on the basis as the “as incurred” method.

The Workbooks and tables which report this information are:

Workbook	Table
Workbook 1 – historical and forecast	2.1 Expenditure
Workbook 1 – historical and forecast	2.3c Material Projects
Workbook 1 – historical and forecast	2.6 Non-network
Workbook 4 – CESS	Input Reported Capex

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

4.2 Relevant definitions

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

4.2.1 Capex (Capital expenditure)

Appendix F, attached to the RIN, defines Capex as Capital expenditure, however the definition for Capital expenditure is not defined.

As Capital expenditure is not defined in Appendix F, the Capital expenditure reported by Murraylink in the Workbooks is in accordance with AASB 116 Property, Plant and Equipment and the APA Capitalisation policy.

4.2.2 Material project

Appendix F, defines Material projects as:

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

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

4.3 Sources of information

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

4.4 Methodology and assumptions

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

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

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

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

4.5 Use of estimated information

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

4.6 Material changes

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

4.7 Other information

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

4.8 Reconciliations

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

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

5 Actual Operating expenditure (Opex) reported in Workbooks

5.1 Opex reported in Workbooks

Murraylink's actual opex is reported in the Workbooks.

The Workbooks and tables which reports this information are:

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

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

5.2 Relevant definitions

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

Appendix F, defines Opex as:

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

5.3 Sources of information

The Opex reported in the Workbooks is sourced from the Murraylink Regulatory accounts, refer to paragraph 2.4.

5.4 Methodology and Attribution methods

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

5.4.1 Direct Costs

Murraylink's direct costs comprise the following the components:

- direct network operation, including operating expenses, communications, energy costs and connection costs;
- direct maintenance costs; and
- direct other costs, including insurance, contracted services, taxes, travel costs, utilities expenses, accounting fees and legal fees, and other direct expenses which can be attributable to the asset.

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

5.4.2 Shared costs

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

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

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

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

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

The allocation of the of these costs are in accordance to the Murraylink Cost Allocation Methodology (**CAM**) effective from July 2013 to 2023 which has been approved by the AER and have consistently been applied for historical periods in the Workbooks.

5.4.3 All Costs

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

5.5 Use of estimated information

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

5.6 Material changes

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

5.7 Reconciliations

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

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

6 Provisions reported in Workbooks

6.1 Provisions reported in Workbooks

Murraylink's actual Provisions are required to be reported in the Workbooks.

The Workbook and table which reports this information is:

Workbook	Table
Workbook 1 – historical and forecast	3.2.3 Provisions

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

6.2 Relevant definitions

Appendix F, attached to the RIN, does not include a definition of Provision.

As Provision is not defined in Appendix F, the Provisions reported by Murraylink in the Workbooks is in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

6.3 Sources of information

The Provisions reported in the Workbooks is sourced from the Murraylink Regulatory accounts, refer to paragraph 2.4.

It is important to note that there were no provisions in the regulatory years reported in the Workbooks.

6.4 Methodology and assumptions

Murraylink's provisions are captured in the Oracle financial reporting system through cost centre and project reporting. Provisions are recognised in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

6.5 Use of estimated information

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

6.6 Material changes

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

6.7 Other information

It is important to note that there were no provisions in the regulatory years reported in the Workbooks.

6.8 Reconciliations

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

As the historical financial information reported for Provisions in the Workbooks reconciles to the Murraylink Regulatory Accounts provided to the AER, no further explanation is required.

7 Capex immediately expensed for tax purposes reported in Workbooks

7.1 Capex immediately expensed for tax purposes reported in Workbooks

Murraylink's capex immediately expensed for tax purposes reported in Workbooks.

The Workbook and table which reports this information is:

Workbook	Table
Workbook 1 – historical and forecast	8.2 Capex

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

7.2 Relevant definitions

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

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

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

7.3 Sources of information

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

7.4 Methodology and assumptions

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

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

For Murraylink, during the regulatory years reported in the Workbooks, there was no expenditure capitalised for accounting purposes that was claimed as an immediate deduction for tax purposes.

7.5 Use of estimated information

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

7.6 **Material changes**

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

7.7 **Other information**

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

7.8 **Reconciliations**

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

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

8 Actual Service target performance incentive scheme data reported in Workbooks

8.1 Service target performance incentive scheme data reported in Workbooks

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

The Workbook and table which reports this information is:

Workbook	Table
Workbook 1 – historical and forecast	7.9 STPIS

Assurance is required for any historical non-financial information reported in the Workbooks, however as per paragraph 1.4 of Appendix C of the RIN, the review of the non-financial data does not include information provided to the AER in response to paragraphs 8.1(a) and 8.2(a) of schedule 1 of the RIN (i.e. the information reported as part of table 7.9 Service Target Performance Incentive Scheme, of Workbook 1 Forecast and historical).

8.2 Relevant definitions

No specific definitions.

8.3 Sources of information

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

8.4 Methodology and Attribution methods

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

8.5 Use of estimated information

Historical information reported in the Workbooks was not required to be estimated. Actual historical information has been reported in the Workbooks as this information was retrieved from previous reporting to the AER.

8.6 Material changes

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

8.7 Reconciliations

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

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