April 2021

VTS Annual RIN — Initial Regulatory Years and Annual RIN reporting

RIN response and basis of preparation for 2011 to 2020 regulatory years

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Contents

1 Introduction

On 1 April 2020, the Australian Energy Regulator (AER) issued APA VTS Australia (Operations) Pty Limited (VTS) (the Service provider for the declared transmission system) with a Regulatory Information Notice (RIN) under Division 4 of Part 1 of Chapter 2 of the National Gas Rules (Victoria) Law (NGL), as varied on 3 November 2020. The RIN specifies information to be provided to the AER by VTS.

The Victorian Transmission System (VTS - sometimes also known as the Principal Transmission System, PTS or APA GasNet system) is owned by the Service Provider - APA VTS Australia (Operations) Pty Ltd ABN 65 083 009 278. The Service Provider prepares this RIN for itself and on behalf of the owners of VTS. Importantly, Australian Energy Market Operator (AEMO) is not a service provider for the purposes of the National Gas Law, despite the fact that it controls and operates the VTS. Under section 8(2) of the National Gas Law, if AEMO controls or operates (without at the same time owning) a pipeline, AEMO is not for that reason to be taken to be a service provider.

Data supplied in this RIN relates to the initial regulatory years (as defined in the RIN) ('initial regulatory years' or '2011 to 2019') from calendar year 2011 to 2019 as well as for the Annual RIN for the calendar year 2020 ('2020 regulatory year' or '2020').

This Basis of Preparation document applies to the RIN issued to VTS and the service provider is APA VTS Australia (Operations) Pty Limited. The service provider is entirely owned by APA Group (APA). APA acquired the VTS when it purchased GasNet Australia in December 2006. APA VTS Australia (Operations) Pty Limited was formerly known as APA GasNet Australia (Operations) Pty Limited.

1.1 Pipeline-specific information

1.1.1 *VTS and the market carriage system*

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

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

withdraw gas from the market must also enter into a connection agreement with either a gas distribution company or APA, or have arrangements to transport the gas to a connected transmission pipeline.

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

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

1.1.2 *VTSs access arrangements and regulatory determinations*

For the initial regulatory years and the 2020 regulatory year's reporting, forecasting information was used from three different access arrangement (AA) determinations. Below is an overview of commencement and what period relates to which access arrangement.

AA referred to in this basis of preparation:	**"2008–12"**	**"2013–17"**	**"2018–22"**
Final decision for the specific AA (Final determination) (per AER website)	30 April 2008	15 March 2013	30 November 2017
VTS's calendar years included in each AA	2008 2009 2010 2011 2012	2013 2014 2015 2016 2017	2018 2019 2020
VTS regulatory considerations within respective access arrangement determination	Each year represents 12 months capex, revenue and opex	this AA only contained forecast from 1 July 2013 as the period 1 January to 30 June included VTS actuals. This has no implication on the actual numbers reported here.	Each year represents 12 months capex, revenue and Opex

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

Debt rasing cost allowance	Allowance provided by the ACCC, Recorded as actuals in the RIN reporting	Allowance provided by the AER, Recorded as actuals in the RIN reporting	Allowance provided by the AER, Recorded as actuals in the RIN reporting
Equity raising cost allowance	NA	No allowance provided by the AER, 0 reported as actuals	No allowance provided by the AER, 0 reported as actuals

Due to a delay in the AER 2013 final determination VTS 2013 forecasts reflect six months actual outcomes and six months forecast.

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

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

- The reporting templates have been prepared in accordance with the requirements of the RIN and definitions as set out in Appendix F of the RIN.
- The basis of preparation which sets out the following:
  - The sources of the provided information.
  - The reporting methodology and assumptions
  - Where adopted, the basis of estimates and assumption utilised.
- Explanations where VTS has provided a null response to a RIN requirement.
- Relevant supporting information or documentation for meeting the RIN requirements.
- The audit and review reports in accordance with the requirements of the RIN and this Basis of Preparation by 30 April 2021.

1.3 Definitions of actual and estimated information

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

> Information presented in response to the Notice whose presentation is materially dependent on information recorded in the pipeline service provider's accounting records or other records used in the normal course of business, and whose presentation for the purposes of the notice is not contingent on judgements and assumptions for which there are valid alternatives, which could lead to a materially different presentation in response to the notice.

Non-financial information is sourced from records used in the normal course of business including APA's Grid System - Energy Components (EC) - APA's hydrocarbon

accounting system which holds the physical parameters for the asset - metres and delivery points and the shipper parameters for billing, Maintenance Management and incident management database (Maximo), Integrity Management Systems (IMS) and Supervisory Control And Data Acquisition (SCADA) system. VTS has reported these amounts as estimates in the Estimate Historical Performance Data workbook or in the Estimate Annual Performance Data workbook (Estimate Regulatory Template) subject to limited assurance in line with the RIN guidelines.

Information involving a calculation presented in response to this RIN is, in certain instances considered actual information, as this information is retrieved from VTS's accounting and business records and does not include significant judgements and assumptions. Examples of such calculations are the regulatory finance expense, debt raising cost and shared corporate expenditure allocation.

Specific operating expenditure categories in the Historical and Annual Performance Data tables have been categorised as actual information based on allocation methodologies and categorisation judgements. The allocation methodologies are described in the relevant sections throughout the basis of preparation document.

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

Information is classified as estimated where it is not classified as actual.

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

1.4 Best estimates

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

1.5 Attachments

- the regulatory accounting principles and policies for the relevant regulatory year;
- the cost allocation methodology (CAM) for the relevant regulatory year;
- the capitalisation policy for the relevant regulatory year; and
- the statement of policy for determining the allocation of overheads in accordance with the cost allocation method for the relevant regulatory year.

- APA organisational chart. The service provider has no subsidiaries therefore the organisation structure of the pipeline service provider is not applicable.
- Audit opinion
- Review conclusion
- Limited assurance opinion for Non-financial data
- Regulatory templates – Historical Performance Data workbook and Annual Performance Data workbook
    - Consolidated
    - Estimates - subject to review for the financial data and subject to limited assurance for the non-financial data for the period 2013–20
    - Actuals- subject to audit for the period 2013–20.

In the materials submitted to the AER, no material changes occurred in the capitalisation policy for the relevant regulatory years. VTS is submitting the relevant policies for the regulatory years.

1.6 Rounding

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

2 General overview and information

2.1 Sources of information

VTS's Oracle system, is the financial reporting system used which comprises a number of 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 provides details on the activity type of the costs, reflecting categories of capital, operating and maintenance activities and services.

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

Financial information extracted from the Oracle financial reporting system underpins the reported amounts in the RIN unless specified in the separate sections. Mainly:

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

APA has allocated to VTS shared corporate expenditure based on a revenue allocation method and shared assets on the basis of allocated shared corporate expenditure. For further details of allocation methods, refer to section 5.1.2 for shared corporate expenditure allocation and 4.1.1.4 for shared assets.

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

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

2.2 VTS's audit of statutory account balances

The RIN requires VTS to use the audited statutory trial balances as the foundation for the RIN reporting. Prior to the RIN, there were no regulatory requirements for VTS to have the service provider's trial balances audited.

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

Historical reporting (Regulatory year 2013–19):

No assurance requirements for the audited statutory trial balance for the 2013–19 regulatory years. Consequently, the F1. Income worksheet for these years has not been subject to an audit or a review.

Annual reporting (Regulatory year 2020 onwards):

Audited statutory trial balance requirements for each regulatory year and worksheet F1 is subject to audit for the year 2020 onwards.

2.3 General methodology and principles

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

Financial information has mostly been derived from VTS's statutory trial balance which forms part of APA Group's Consolidated Statutory Financial Statements.

The requested information for the RIN historical and annual reporting broadly aligns with legal entity reporting. VTS owns scheme assets and other non-regulated assets (such as the metering business and the LNG facility) The trial balances represents the financial information for the legal entity, APT VTS Australia (Operations) Pty Ltd, the VTS service provider in accordance with the definition above. This trial balance is made up of several reporting business segments. Of the several reporting business segments, one relates to the covered pipeline, while the other reporting business segments do not form part of the regulated asset and are outside of the RIN scope. The historical and annual RIN reporting only relates to the financial information for the covered pipeline. The reported financial information provided is supported by VTS's regulatory accounts, underlying customer contracts, direct costs and detailed reviews of invoices and asset registers as relevant.

The 2011 and 2012 regulatory years' historical financial and non-financial data are included in the historical reporting template but not subject to audit or assurance requirements in line with the RIN Appendix C paragraph 1.4b.

With respect to the 2013–19 financial information certain *actual amounts* for VTS have been audited by APA's external auditor, Deloitte Touche Tohmatsu (the Auditor), in accordance with the Australian Auditing Standards. Where there have been estimates as defined by the RIN, the 2013–19 estimated financial information has been reviewed by Deloitte Touche Tohmatsu. With respect to the 2013–19 non-financial information Deloitte Touche Tohmatsu has issued a limited assurance report.

The Historical Performance Data workbook ("the historical regulatory template") has been subject to audit and or review as required and the first two years presented (2011 and 2012) are unaudited, in accordance with the RIN requirements. The regulatory reporting period (historical reporting period) is 2011–19.

The Annual regulatory reporting period (annual reporting period or 2020 is for the calendar year 2020 and is reported in the Annual Performance Data workbook (the annual regulatory template).

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

All amounts are presented in nominal terms unless stated otherwise.

2.3.1 *Assurance aspect with the AEMO data*

AEMO is the operator and provides VTS with the transaction volumetric data In relation to the AEMO data, VTS is unable to determine whether there has been any cut-off, accuracy, integrity and completeness issues with the data.

For more detailed information on the AEMO data, please refer to section 6.2 in this document.

2.4 Reference services on VTS

All customers are using the reference service on VTS, the tariffed transmission service or the Authorised Maximum Daily Quantity credit certificates (AMDQcc) service[2]. No non-reference services can be offered on VTS due to the market carriage system. Therefore all revenue is reported as revenue from reference services.

Capital and operating expenditure made in support of the provision of the reference service is similarly treated in the Access Arrangement as required to provide the reference service. All capital and operating expenditures are reported consistent with the methodologies and definitions under the access arrangement determination and reported as reference service information.

2 For further information on reference services see section 2.2 of the 2013-18 Access Arrangement.

2.5 Maintaining information

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

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

- All base financial records will be extracted from APA's financial systems;
- APA's statutory financial statements and associated accounting records will form the basis of all reporting requirements;
- Analytical templates and work papers prepared for regulatory reporting;
- All records will be kept for at least seven years from date of initial regulatory years submission; and for the subsequent regulatory years, for at least 7 years from the date of the respective submission
- All records will be available to independent auditors and the AER.

These records will be maintained to:

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

3 Workbook 1 & 2 - The Regulatory templates

VTS will submit two workbooks as part of this regulatory submission:

Workbook 1 - Historical Performance Data workbook which disclose the regulatory years 2011–19.

Workbook 2 – Annual Performance Data workbook disclose the 2020 regulatory year.

3.1 Entry of variables

1. Variables in yellow cells

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

For the historical reporting period, with the exception of tab F1. Income and table F2.7 Immediate expensing of capex, these cells have been subject to Audit, Review or Limited assurance in line with RIN requirements.

For the annual reporting period all cells have been subject to Audit, Review or Limited assurance in line with RIN requirements.

2. Variables in grey cells

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

3. Numerical inputs

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

3.2 Financial information compliance

Compliance Requirement	VTS Compliance
Appendix E - 1 Part A: ***General*** 1.1 The *financial information* must: (a) Be derived from the *audited statutory accounts*;	VTS's financial information is derived either from VTS's statutory trial balance or from AER determinations. As noted in section 2.2 VTS has derived information for its historical reporting template from its unaudited statutory trial balances for the period 2011–19.

	For the period ending 31 December 2020 the financial information was derived from the audited statutory trial balance.
(b) Be verifiable by reference to the *audited statutory accounts*;	All information for the historical reporting period (2011–19) has been reconciled to the unaudited statutory trial balances for the regulatory years. For the period ending 31 December 2020 the financial information was derived from the audited statutory trial balance.
(c) Be prepared using the accrual basis of accounting;	VTS has consistently used the accrual basis of accounting in line with AASB requirements for the regulatory reporting periods.
(d) Report the substance, over the form, of a transaction, taking into account all aspects, implications and expectations of and motivations for the transaction and that a group or series of transactions that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate;	In line with the requirements of the AASB accounting standards. This covers underlying transactions for the financial information as reported in the RIN.
(e) Only include costs that are incurred in or relate to the provision of *pipeline services*;	All cost reported as part of the financial information is either directly incurred by VTS or allocated to VTS and incurred in the provision of *pipeline services*.
(f) Be presented on a fair and consistent basis, from the *accounting records* that underlie the costs, revenue, *assets* employed and liabilities which may be reasonably attributed to the *pipeline service provider*;	VTS has complied with this requirement throughout the RIN by ensuring a consistent application and fair basis of costs has been attributed to the service provider. Where relevant, further information has been provided in section 5.1.1 in the basis of preparation.
(g) Be prepared using the classification of services and *cost allocation method* for the relevant *regulatory year*;	VTS's current Cost Allocation Methodology (CAM) has been applied consistently since second half of the calendar year 2015 and is in line with the CAM applied to APA's other regulated businesses. The method is based on revenue as the allocator. This is the first time the VTS cost allocation methodology is submitted to the AER.

(h) In so far as is reasonably practicable, be prepared in accordance with the general rules and format, and use the accounting principles and policies applicable to the *audited statutory accounts* except as otherwise required by this *notice*.	As noted in section 2.2 VTS has derived information from its unaudited statutory trial balances for the period 2011–19. For the period ending 31 December 2020 financial information was derived from the audited statutory trial balance. VTS has prepared the Regulatory template in accordance with the general rules and format of the RIN. Accounting principles and policies have been applied consistently throughout the RIN as outlined in this document.
(i) Be presented in an understandable manner, without sacrificing relevance or reliability;	VTS has complied with this requirement by preparing this Basis of Preparation in an understandable manner without sacrificing relevance or reliability.
(j) State fairly the financial position of the *pipeline service provider*; and	Prior to the RIN requirement, VTS was not required to have audited statutory trial balances. AER has agreed to remove assurance requirements for the audited statutory trial balance for the 2013–19 regulatory years. As a result the worksheet F1 and table F2.7 has no audit or review assurance. Based on the agreed process with the AER, the Auditor is not required to opine on VTS's financial position as historical statutory trial balances are not required to be audited for the years 2013–19. For the period ending 31 December 2020 financial information was derived from the audited statutory trial balance in line with the RIN requirements. The rest of the reported financial information in the Regulatory template has been subject to an audit and review for the period 2013 to 2019.
(k) Unless otherwise specified, not be adjusted for inflation.	Inflation has only been applied in those instances as allowed under the RIN.
1.4 Where information provided in the *regulatory templates* has previously been reported to the *AER*:	VTS has identified instances where previously provided information does not

(a) This information must reconcile with the previously provided information; or	reconcile. Refer below to section 3.2.1 in this basis of preparation.
(b) The *pipeline service provider* must explain why the information does not reconcile with the previously provided information in its *basis of preparation*.	VTS has previously reported information, for demand data, capex, operating expenditure which differs to amounts reported in this RIN. Refer to section 3.2.1 for further information.
1.5 Actual capital expenditure and operating expenditure must be reconciled to the pipeline service provider's audited statutory accounts. Where the pipeline service provider is part of a corporate group that reports this information at the corporate group level, the pipeline service provider must reconcile to the information reported at the corporate group level. Where reconciliation is at the corporate group level the pipeline service provider must:	Refer to section 11.1.1 in Table F1.1 Audited statutory accounts.
(a)Allocate statutory reported expenditures to the pipeline service provider and indicate the method of allocation;	Refer to section 5.1.1 Costs and section 5.1.2 Shared corporate expenditure.
(b) Show calculations for any allocation; and	Refer to section 4.1.1.1 for allocation of shared corporate assets, and section 5.1.2 for shared corporate expenditure.
(c) Indicate where any changes in allocation method or calculations have occurred in relation to the historical or annual data and how these changes have been adjusted for in the use of the data.	If applicable this will be reported in the relevant section.

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

Appendix E – Part A: General, paragraph 1.4 of the Annual RIN requires VTS to report if information provided in the Annual RIN agrees with information previously provided to the AER, and if it does not agree, to reconcile the two. The current and historical information was reviewed at the total level, as the current and historical reporting categories do not align to previously reported categories. Capital expenditure is required to be reported in categories that VTS does not use for the statutory financial reporting. For reconciliation purposes, VTS has provided information where the capital expenditure in aggregate reconcile to previously provided information.

Total capital expenditure agrees to amounts previously reported. There are non-material differences between current and previously reported opex information, which appears

to be caused by changes to the allocation of corporate costs and debt raising cost. Differences in reported demand are discussed below.

3.2.1.1 Demand data

Demand data for the period 2013–15 align to prior RIN lodged in late 2015 with the exception that the Refill LNG, Refill WUGS and cross system volumes, none of which relate to end user demand, has historically not been reported at all to the AER.

As discussed in section 6.2, demand data is provided by AEMO as operator of the DWGM. This data is subject to ongoing revision and adjustment, primarily because of the reconciliation process required to settle the abundance of accumulation meters in the system.

While historic actual volumes have been provided in the annual tariff update price control models, these 'actuals' may have been subject to subsequent AEMO revision (see Rule 249(2)). This RIN reports information currently recorded as 'actuals' in the VTS systems.

In the 2013 RIN, numbers previously provided for 2011 were an estimate. No actuals have ever been provided for year 2012 nor 2016 onwards.

Capacity in table N2.2 has been categorised with different headings for the starting and ending point on which capacity is measured in prior RINs however VTS deem the headings as currently reported to be more consistent with Victorian Gas Planning Reports and VTS internal reporting configurations.

3.2.1.2 Capital expenditure

'As commissioned' capex for 2011 and 2012 as previously reported to the AER remained unchanged. As APA has not previously disclosed actual 'as incurred' capex for 2011 and 2012 to the AER, VTS is unable to determine the actual 'as incurred' capex for 2011 and 2012 and has estimated 'as incurred' capex equal to 'as commissioned' for 2011 and 2012 regulatory years.

APA has previously provided 'as commissioned' capex for the six month period ended 31 December 2013 and the years 2014-16. Subsequently, due to the audit completed by Deloitte, there has been subsequent adjustments that results in the reported "as commissioned capex" variance to the previously reported "as commissioned" capex for the six month period ended 31 December 2013 and the years 2014-16. These adjustments were immaterial (less than 10%).

3.2.1.3 Operating expenditure

The historical provided actuals reconcile to the operating expenditure as reported within this RIN with minimal differences (less than 1% differences).

3.2.1.4 Revenue

As the VTS is regulated on a 5-year NPV revenue approach, VTS is required to report revenue in the context of annual tariff revisions, and also in the context of calculating the First Carryover Amount and Second Carryover Amount in accordance with sections 4.7 and 4.8 of the 2008-12 access arrangement, and schedules D.6 and D.7 of the 2013-17 and 2018-23 access arrangements.

The Annual RIN defines *actual information* as:

> Information presented in response to the notice whose presentation is *materially* dependent on information recorded in the ***pipeline service provider's accounting records*** or other records used in the normal course of business, and whose presentation for the purposes of the notice is not contingent on judgements and assumptions for which there are valid alternatives, which could lead to a *materially* different presentation in the response to the notice. (emphasis added)

The revenue information in the VTS accounting records will include the impact of year-end accruals, where the information in the Price Control Model is derived from AEMO billing data. It would be reasonable to observe non-material differences in revenue between the Price Control Models and the financial accounting records from year to year.

Revenue information from VTS accounting records also includes revenue from the sale of AMDQcc, which was a reference service up until 31 December 2017. This revenue has previously not been disclosed to the AER.

4 Worksheet E1. Expenditure summary

4.1 Table E1.1 – Capex

4.1.1 *Table E1.1.1 – Reference Services*

4.1.1.1 Definition

Relevant definitions for the reporting of Capex in Table E1.1 are:

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

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

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

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

Table E1.1.1 requires the capital expenditure to be reported in the categories detailed above. VTS has applied the definitions as reported in the RIN Appendix F.

Directly attributable expenses can be defined as:

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

Based on discussions with the AER, VTS has applied the definition of 'directly attributable costs' from the Appendix F to this RIN for the historical and annual years. In particular,

this definition provides that "directly attributable costs excludes any overheads, unless the expenditure relates to capitalised corporate overheads or capitalised network overheads".

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

4.1.1.2 Compliance with requirements of notice

Compliance Requirement	VTS Compliance
Appendix E - 1 Part A: General 1.6 All costs that relate to or are incurred in the provision of pipeline services in the audited statutory accounts, must be allocated to the pipeline service provider in accordance with the following cost allocation principles:	VTS financial information is derived from VTS's trial balance and/or AER determinations. As noted in section 2.2 VTS has derived information from its unaudited statutory trial balance for the period 2011–19. For the period ending 31 December 2020 financial information will be derived from the audited statutory accounts. All information has been reconciled to the statutory trial balance for the relevant regulatory years.
(a) Costs that are directly attributable to the pipeline service provider, must be allocated on that basis;	Refer to section 5.1.1 regarding costs.
(b) Capital expenditure items are to be allocated to a capital expenditure purpose on a directly attributable basis or a causation basis using an appropriate allocator. Where this is not possible the capital expenditure must be allocated using an appropriate allocator, in accordance with Schedule 1, paragraph 2.3;	Refer to section 5.1.1 regarding costs.
1.7 All costs allocated to the pipeline service provider in the response to paragraph 1.6 must in turn be allocated to services in accordance with the following cost allocation principles:	Refer to section 5.1.1 regarding costs.

(a) Costs that are directly attributable to either reference services or other services provided as a covered pipeline must be allocated on that basis;	All Capital expenditure is directly attributable to reference services and has been allocated 100% on that basis. Refer section 5.1.1 for more information.
(b) Costs that are not directly attributable to either reference services or other services provided as a covered pipeline are	Complied with and referring to section 5.1.1 regarding costs and the Cost Allocation Methodology.
(i) To be allocated on a causation basis using an appropriate allocator; and	Complied with and referring to section 5.1.1 regarding costs and the Cost Allocation Methodology.
(ii) Where (i) is not possible, to be allocated using an appropriate allocator, in accordance with Schedule 1, paragraph 3.4.	Complied with and referring to section 5.1.1 regarding costs and the Cost Allocation Methodology.
1.8 Asset revaluations or adjustments for impairment (whether increasing or decreasing asset values) are not permitted unless agreed to or required by the AER.	None recognised for VTS in the regulatory reporting periods.
1.9 Revaluations or adjustments for impairment (whether increasing or decreasing asset values) made in the audited statutory accounts must not be made in the regulatory templates.	None recognised for VTS in the regulatory periods. No revaluations or adjustments are made in the regulatory templates.
1.10 Capital expenditure must be allocated to a capital expenditure purpose or asset class and must not be shown under a work-in-progress heading.	Any capital work in progress at period end has in all instances been added to the capital expenditure for each respective asset category. No separate work in progress heading is being reported.
1.11 Goodwill and any related impairments must not be allocated to a capital expenditure purpose or asset class.	Goodwill and any other related impairments have not been allocated to a capital expenditure purpose or asset class.
1.12 Impairment losses must not be reported in an operating expenditure category. Impairment losses must only be reported in the 'Impairment losses' row of Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template F1. Income.	No impairment losses has been incurred or recognised on VTS. Hence a zero is reported in this cell in Worksheet F1.
2. Part B: Explanatory Instructions - Workbook 1 & 2	VTS has complied with this in Table E.1.1.1 In all cases for statutory reporting, items of property, plant and equipment are capitalised when commissioned. For

2.1 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory templates E1. Expenditure Summary instructions: (a) In Table E1.1.1 for each regulatory year, the pipeline service provider must report the capital expenditure for each reference services capital expenditure purpose gross of capital contributions. The total capital contributions for reference services is also to be identified as the last row in Table E1.1.1.	reporting purposes under this RIN VTS has included capital work in progress at period end (if applicable). This is reported in each respective asset category as the RIN prohibits any work in progress heading. For reporting purposes for this requirement, VTS has reported the capital expenditure on an 'as-incurred' basis in this Table. The information has been sourced from the capital work in progress reports each year. The table presents the Capex Gross of capital contributions with the capital contributions being identified on the last row in line with ARIN.

4.1.1.3 Sources of information

The amounts for these tables were sourced from VTSs Oracle financial system for the regulatory period and represents actuals.

4.1.1.4 Methodology and assumptions

VTS capital expenditure is captured in the Oracle financial reporting system through cost centre and project reporting. Capital costs are recognised in accordance with *AASB 116 Property, Plant and Equipment*. Once it has been determined that it is appropriate to capitalise the costs, they have been attributed directly to the pipeline via the cost allocation drivers described in section 5.1.1 Costs.

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

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

- Administration and general overhead costs;
- Labour and consumables; and

- Staff training costs.

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

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

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

Methodology for earlier years until the 2016 regulatory year

VTS applied a methodology based on revenue allocation with a secondary split and allocation to non-regulated assets.

$$\text{Service provider shared support assets} = \text{Specific APA shared support assets which benefits VTS} \times \frac{\text{Service provider revenue}}{\text{Total APA revenue}} \times \text{X 88-94\% as some shared corporate assets were allocated to VTS non-regulated businesses}$$

Methodology for 2017 regulatory year and subsequent years

VTS developed a consistent approach for all regulatory and non-scheme assets and applied this on VTS in the following year 2017. For the subsequent regulatory years, VTS has adopted the ratio of attributed shared assets to APA corporate costs for the 2017 reporting period in line with the regulatory accounting principles.

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

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

The proportion of shared support assets attributable to the service provider is included in the directly attributable capital expenditure amounts in the Table E.1.1.1 and is reported in the Non-Network category.

4.1.1.5 Use of estimated information

There are estimates applied in the reported tables.

For 2011 and 2012 the capex determined on the basis 'as incurred' is estimated to equal the actual 'as commissioned' capex.

All other amounts presented in these tables are actuals for all the years as this information was either retrieved from regulatory determinations or from VTS financial systems and business records.

4.1.1.6 Material accounting policy changes or changes of allocation

As mentioned in section regarding changed allocation methodology of shared support assets 4.1.1.4.

4.1.1.7 Reconciliation

Refer section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

4.1.2 *Table E.1.1.2 – Table intentionally omitted by AER from their template*

4.1.3 *Table E.1.1.3 – Other services provided as a covered pipeline*

VTS's capital expenditure for the historical years and the annual regulatory year have been made in relation to reference services. No other capital expenditure was spent for other non-reference services.

The compliance requirement is that the pipeline service provider must report the capital expenditure for other non-reference services provided (gross of capital contributions). VTS has incurred no capital expenditure for other services provided as a covered pipeline.

4.1.4 *Table E.1.1.4 – Table intentionally omitted by AER from their template*

4.1.5 *Table E.1.1.5 – All capex*

Given VTS has no other services provided as a covered pipeline capital expenditure in the reporting period, this table represents the total capital expenditure from reference service and numbers are identical to section ***4.1.1 - E1.1.1 Reference Service*** for reasons mentioned in section 2.4.

In table E1.1.5 for each regulatory year, the pipeline service provider must report the total capital expenditure for each capital expenditure purpose: Replacement, Expansion or Non-Network (gross of capital contributions). The total capital contributions reported in table E1.1.5 complies with the requirements.

The capital expenditure reported for each capital expenditure purpose in tables E1.1.1 and E1.1.3 should reconcile to the total capital expenditure reported for each capital expenditure purpose in table E1.1.5. The pipeline service provider must provide a reconciliation in the basis of preparation if this does not occur. The table E1.1.1 reconciles in its totality with table E1.1.5. No further reconciliation is necessary.

4.2 Table E1.2 – Operating expenditure

In this table VTS reported the total operating expenditure across the following categories; repair and maintenance, other operating expenses or debt and equity raising.

All operating expenditure has been attributed to the reference services, in line with the access arrangement determination.

4.2.1 *Table E1.2.1 – Reference Service*

4.2.1.1 Definition Repairs and maintenance

Repairs and maintenance expenditure is the expenditure incurred by the pipeline service provider that is directly attributable to repair and maintenance activities and is not capital in nature.

VTS has defined repairs and maintenance costs as costs directly associated with operating the pipeline such as O&M contracting cost inclusive of VTS staff servicing, salaries and wages plus on-costs, tools and protective gear for the staff, staff training cost, employee insurance, associated fees and taxes.

Other operating costs are all other expenses not defined as repairs and maintenance, such as rent and property outgoings and professional consulting, advertising, office administration, shared corporate expenditure allocations, and general O&M costs (if any) that do not meet the definition of repairs and maintenance. The reporting of other operating costs is in compliance with the RIN requirements.

4.2.1.2 Definition Debt raising and Equity raising cost

The definition is in accordance with Appendix F to the RIN.

The transaction costs incurred by the pipeline service provider in relation to raising debt and equity instruments to fund the asset base.

4.2.1.3 Compliance with requirement of notice

Compliance Requirement	VTS Compliance
2. Part B: Explanatory Instructions – Workbook 1 2.1(e) In table E1.2.1 for each regulatory year, the pipeline service provider must report the operating expenditure for each reference services operating expenditure category. The operating expenditure reported for each reference services operating expenditure category must be inclusive of any attributable (non-capitalised) corporate and network overhead operating expenditure.	Operating expenditure is reported in line with the relevant access arrangement determination and is incurred to support the reference service. As a result the information will be populated in the reference services boxes throughout the RIN. Consequently, all non-reference services tables for operating expenditure are not applicable and have not been populated.
2.1 (f) In table E1.2.3 for each regulatory year, the pipeline service provider must report the operating expenditure for each other services provided as a covered pipeline operating expenditure category. The operating expenditure reported for each other services provided by means of the covered pipeline operating expenditure category must be inclusive of any attributable (non-capitalised) corporate and network overhead operating expenditure.	Operating expenditure is reported in line with the relevant access arrangement determination and is incurred to support the reference service. Therefore in line with the requirements the information is populated in the reference services boxes throughout the RIN. As a result, all non-reference services tables for operating expenditure are not applicable and have not been populated.
2.1 (g) In table E1.2.5 for each regulatory year, the pipeline service provider must report the operating expenditure for each operating expenditure category. The operating expenditure reported for each operating expenditure category must be inclusive of any attributable (non-capitalised) corporate and network overhead operating expenditure.	VTS has reported the categories and the total expenditure inclusive of any attributable (non-capitalised) corporate and network overhead operating expenditure.
2.1 (h) The total operating expenditure for each operating expenditure category reported in E1.2.5 should reconcile to the operating expenditure regulatory template F4. Opex in table F4.1.3. The pipeline service provider must provide a reconciliation in the basis of preparation if this does not occur.	The total operating expenditure for each operating expenditure category reported in E1.2.5 reconciles to tab F4 Opex Table F4.1.3 Opex for Transmission business. Total operating expenditure also reconciles to the regulatory accounts. No further reconciliation is necessary.
2.1 (i) The operating expenditure for each operating expenditure category in tables	Operating expenditure is reported in line with the access arrangement

E1.2.1 and E1.2.3 should reconcile to the total operating expenditure reported for each operating expenditure category in table E1.2.5. The pipeline service provider must provide a reconciliation in the basis of preparation if this does not occur	determination and is incurred to support the reference service. Therefore in line with the requirements the information will be populated only in the reference services tables throughout the RIN. As a result, all non-reference services tables for operating expenditure are not applicable and have not been populated. Therefore Table E1.2.1 reconciles to the Table E1.2.5.
Appendix E: instructions 1 Part A: General Paragraph 1.6c Cost allocation principles (c) operating expenditure items are to be allocated to an operating expenditure category on a directly attributable basis or a causation basis using an appropriate allocator. Where this is not possible the operating expenditure must be allocated using an appropriate allocator, in accordance with Schedule 1, paragraph 2.3.	Refer to section 5.1.1 and the CAM.

4.2.1.4 **Sources of information**

Repairs and maintenance and other operating

The amounts for these tables were sourced from VTS's Oracle financial system for the regulatory periods.

Debt raising costs

Debt raising costs have been calculated as the average value of the Regulatory Asset Base multiplied by the AER-approved debt raising cost for the applicable access arrangement period.

The average regulatory asset base value for the year is calculated based on applying actual capital expenditure inputs to the AER's asset base roll forward model, adjusted for actual CPI (average Australian eight capital cities). The AER-allowed debt raising cost percentage rate has been referenced to the relevant AER Final Decision post tax revenue model (PTRM) for the relevant access arrangement.

Equity raising costs

VTS has followed the principles set out in the ACCC's Decision for the 2008-2013 AA and the AER's 2013–17 and 2018–22 Final Decision PTRM equity raising cost analysis. The AER's

approach determines the need to raise equity capital based on an analysis of cash flows and assumptions on internal funding capacity.

No allowance was provided by the ACCC/AER for Equity raising costs.

4.2.1.5 Methodology and assumptions

Repairs and maintenance and other operating

In certain circumstances where VTS was unable to determine the incurred costs as repairs and maintenance, the expenditure was categorised as other operating expenses.

Debt raising

APA Group raises debt at the corporate level and does not allocate the debt raising costs to its various subsidiaries.

Debt raising costs applicable to VTS have been determined using the approach applied by the ACCC and the AER as determined in the relevant access arrangement, applied to the average capital base for the year.

In the relevant access arrangement determinations, the ACCC/ AER has approved debt raising costs by applying the approved factor (2008-13= 0.104%; 2013–17=0.097%; 2018–22=0.010%) to the debt-funded proportion of the forecast opening capital base for each regulatory year.

Consistent with the methodology utilised in the ACCC/AER determinations, VTS has applied the same approach to the average value of the capital base reflecting actual capital expenditure over the relevant periods since the AER's last capital base determination.

Equity raising

APA Group raises equity at the corporate level and does not allocate the equity raising costs to its various subsidiaries.

Equity raising costs applicable to VTS have been determined using the approach applied by the AER in its final PTRM for the 2013–17 and 2018–22 Access arrangement period.

The AER's approach determines the need to raise equity capital based on an analysis of cash flows and assumptions on internal funding capacity, and applies an approved cost rate to the amount of equity capital determined to be required to be raised.

In the 2008-13, 2013–17 and 2018–22 access arrangement periods, the ACCC/AER determined that VTS would not need to raise equity capital to fund its capital expenditure program, and accordingly for the equity raising costs.

The AER's approach was applied to the 2013–17 and 2018–22 Access arrangement period and found that the approach did not result in any requirement to raise equity capital for that period. Consistent with the methodology utilised in the AER determinations, VTS has applied an amount of zero for equity raising costs for all years 2013–20.

It should be noted that the AER PTRM records equity raising costs as capital expenditure, whereas the RIN table E1.2.1 requires equity raising costs to be reported as Operating expenditure.

4.2.1.6 Use of estimated information

Repairs and maintenance and other operating

All amounts represents actuals and includes no estimates.

Debt and equity raising

As VTS has applied the AER debt and equity raising cost methodologies and applied the approved debt raising cost allowance to the value of the capital base reflecting actual capital expenditure and inflation, VTS has considered debt and equity raising costs to be actual.

4.2.1.7 Material accounting policy changes or changes of allocation

Repairs and maintenance and Other operating

None in the period

Debt and equity raising

None

4.2.1.8 Reconciliation

Repairs and Maintenance and Other operating

Differences were noted in the operating expenditure compared to previously reported actual numbers. Refer section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

Debt and equity raising

The average capital base values used to determine the debt raising costs per cent are drawn from the reported opening capital base numbers in ACCC's 2008-13 Final Decision and AER's 2013–17 and 2018–22 Final decision Roll Forward models. For subsequent years, the debt raising costs have been determined using the average regulatory capital base which has been calculated consistent with RFM principles. No reconciliation is required.

It should be noted that the AER PTRM records equity raising costs as capex, whereas the RIN table E1.2.1 requires equity raising costs to be reported as Operating expenditure. While both are zero in this case, this will represent a reconciling item should future VTS capex levels provide for equity raising costs to be calculated in the AER's PTRM and estimated for this RIN purpose.

4.2.2 *Table E1.2.2 – Table intentionally omitted by AER from their template*

4.2.3 *Table E1.2.3 – Other services provided as a covered pipeline*

Operating expenditure has been reported in the last three Access arrangement determinations as relating to the reference tariff. As a result the information has been reported in the reference services tables throughout the RIN. No operating expenditure was reported for 'other services'.

4.2.4 *Table E1.2.4 – Table intentionally omitted by AER from their template*

4.2.5 *Table E1.2.5 – All opex*

All operating expenditure has been reported in the reference service table.

Therefore table E1.2.1 reconciles without exception to the table E1.2.5.

4.3 Table E1.3 – Capital contributions (Capcons)

4.3.1 *Table E1.3.1 – Reference services*

In the market carriage model used in VTS, capacity is allocated through the Declared Wholesale Gas Market. As a shipper cannot secure firm access to capacity, there is no framework for shippers to contribute to capacity expansions. Under this model, no capital contributions exist in VTS as shippers do not have a firm service and therefore, do not contribute to any capacity expansions.

4.3.1.1 Definition capital contribution

Cash or in kind contributions to capital expenditure projects including gifted assets. This definition is in line with the Appendix F definition to this RIN. Due to the market carriage model, there are no capital contributions in the VTS.

4.3.1.2 Compliance with requirement of notice

Compliance Requirement	VTS Compliance
Capital contributions	
Appendix E Instructions. Part A: General Capital Contributions paragraph 1.13	There are no capital contributions in the VTS.

1.13 Capital contributions treated as revenues in audited statutory accounts and included in the value of assets must not be carried forward into the capital base, unless the AER has included the capital contributions in a final decision of the pipeline service provider's capital base. 1.14 Capital contributions must be treated in accordance with the method approved in the pipeline service provider's access arrangement.	
2. Part B: Explanatory Instructions – Workbook 1 2.1 (j) In table E1.3.1 for each regulatory year, the pipeline service provider must report the capital contribution for each reference services capital expenditure purpose. The total capital contribution expenditure must reconcile with the capital contributions for reference services identified as the last row in Table E1.1.1.	There are no capital contributions in the VTS.
2.1 (k) In table E1.3.3 for each regulatory year, the pipeline service provider must report the capital contribution for each other services provided as a covered pipeline capital expenditure purpose. The total capital contribution expenditure must reconcile with the capital contributions for other services provided as a covered pipeline identified as the last row in Table E1.1.3.	There are no capital contributions in the VTS.
2.1 (l) In table E1.3.5 for each regulatory year, the pipeline service provider must report the total capital contribution for each capital expenditure purpose. The total capital contribution expenditure must reconcile with the capital contributions identified as the last row in Table E1.1.5.	There are no capital contributions in the VTS.
2.1 (m) The capital contributions reported for each capital expenditure purpose in tables E1.3.1 and E1.3.3 should reconcile to the total capital contributions reported for each capital expenditure purpose reported in	There are no capital contributions in the VTS.

table E1.3.5. The pipeline service provider must provide a reconciliation in the basis of preparation if this does not occur.	

4.4 Table E1.4 – Capitalised overheads

4.4.1 *Table E1.4.1 – Reference services*

4.4.1.1 Definition directly attributable expenses

Directly attributable expenses can be defined as:

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

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

VTS reported capitalised corporate overheads and capitalised network overheads as per the definition of directly attributable expenses in Appendix F to the RIN. Capitalised corporate overhead amounts has been attributed onto the three capital expenditure purposes in the table E1.1.1 based on the asset classification - Replacement; Expansion or Non-network as directly attributable expenses since it relates to capitalised corporate overheads.

4.4.1.2 Compliance with requirement of notice

Compliance Requirement	**VTS Compliance**
Capitalised overheads	
2. Part B: Explanatory Instructions – Workbook 1 2.1 (n) In table E1.4.1 for each regulatory year, the pipeline service provider must report the capitalised overhead expenditure for each reference services capital expenditure purpose listed in E1.4.1. The total	VTS reported capitalised corporate overheads and capitalised network overheads as per the definition of directly attributable expenses in Appendix F to the RIN. As a result table E1.4.1, E1.4.3 and E1.4.5 are zero. The capitalised overhead was attributed to each of the three capex expenditure purposes (Replacement,

capital expenditure reported in table E1.4.1 must reconcile with the cumulative capital expenditure reported for capitalised network overheads and capitalised corporate overheads in table E1.1.1.	Expansion and non-network) in the table E1.1.1 as directly attributable expenses in line with VTS's interpretation of the definition of directly attributable expenses. Complying with the RIN and as a result these lines are zero.
2.1 (o) In table E1.4.3 for each regulatory year, the pipeline service provider must report the capitalised overhead expenditure for each other services provided as a covered pipeline capital expenditure purpose listed in E1.4.3. The total capital expenditure reported in table E1.4.3 must reconcile with the cumulative capital expenditure reported for capitalised network overheads and capitalised corporate overheads in tables E1.1.3.	VTS reported capitalised corporate overheads and capitalised network overheads as per the definition of directly attributable expenses in Appendix F to the RIN. As a result table E1.4.1, E1.4.3 and E1.4.5 are empty. The capitalised overhead was added on the three capex expenditure purposes (Replacement, Expansion and non-network) in the table E1.1.3 as directly attributable expenses in line with VTS's interpretation of the definition of directly attributable expenses.
2.1 (p) In table E1.4.5 for each regulatory year, the pipeline service provider must report the capitalised overhead expenditure for each capital expenditure purpose listed in E1.4.5. The total capital expenditure reported in table E1.4.5 must reconcile with the cumulative capital expenditure reported for capitalised network overheads and capitalised corporate overheads in table E1.1.5.	VTS reported capitalised corporate overheads and capitalised network overheads as per the definition of directly attributable expenses in the RIN. As a result table E1.4.1 Reference services is zero. Table E1.4.3 relates to Capital overheads on non-reference services which for VTS is not applicable and that table has therefore not been populated. Table E1.4.5 has zero as a sum of the above. The capitalised overhead was attributed to each of the three capex expenditure purposes (Replacement, Expansion and non-network) in the table E1.1.5 as directly attributable expenses in line with VTS interpretation of the definition of directly attributable expenses.
(q) The capitalised overhead expenditure reported for each capital expenditure purpose in tables E.1.4.1 and E1.4.3 should reconcile to the total capitalised overhead expenditure for each capital expenditure purpose listed in E1.4.5. The pipeline service	Since tables E.1.4.1 is zero, and E1.4.3 not applicable due to non-reference services by default E1.4.5 amounts to zero too.

provider must provide a reconciliation in the basis of preparation if this does not occur.	

4.4.2 ***Table E1.4.2 – Table intentionally omitted by AER from their template***

4.4.3 ***Table E1.4.3 – Other services provided as a covered pipeline***

VTS reported capitalised corporate overheads and capitalised network overheads as per the definition of directly attributable expenses in the Appendix F in the RIN. Capitalised corporate overhead amounts has been attributed onto the three capital expenditure purposes in the table E1.1.1 based on the asset classification - Replacement; Expansion or Non-network as directly attributable expenses since it relates to capitalised corporate overheads.

No capitalised corporate overhead expenditure was reported for 'other services'.

4.4.4 ***Table E1.4.4 – Table intentionally omitted from AER template***

4.4.5 ***Table E1.4.5 – All capitalised overhead***

VTS reported capitalised corporate overheads and capitalised network overheads as per the definition of directly attributable expenses in the RIN.

As the capitalised corporate overheads and capitalised network overheads have been reported in other expenditure categories (e.g. Replacement and Expansion and Non-network), VTS complied with the definition and have reported null in this table.

4.5 Total actual capital expenditure and total forecast capital expenditure

The service provider must identify each difference (where the difference is equal to or greater than ±10 per cent) between the amount reported in the regulatory templates and if relevant the amounts approved by the AER in the final decision PTRM for the relevant regulatory year:

(a) total actual operating expenditure and total forecast operating expenditure;

(b) total actual capital expenditure and total forecast capital expenditure; and

(c) total volume of gas metered as having been transported throughout the gas transmission network and total volume of gas metered forecast to be transported throughout the gas transmission network.

VTS agreed with AER that the 'relevant' differences to explain were ones that had not already been subject to AER review in an access arrangement reset setting. The 'relevant' differences to explain would be only those relating to the period since the last access arrangement review – so any differences pre 2017 was not deemed 'relevant' in the context of this requirement.

VTS identified the operation of RIN sections 1.5 and 1.6 – that VTS need only 'identify' for those years where the relevant variance has been more than +/- 10%, and it is only for these years that explanations are required. VTS confirmed with the AER that these explanations are required at the 'total opex' and 'total capex' levels rather than at the more granular reporting levels as suggested in the RIN. On variation in throughput, VTS is unable to comment; as pipeline services are demand derived for the desire for natural gas and VTS does not have visibility of the causes of any increases or decreases in gas demand.

4.5.1 *Annual variations in actual total operating expenditure and AER allowance under the current access arrangement determination*

In 2017, the AER accepted the operating expenditure forecast proposed by VTS in the response to the draft determination. The operating expenditure forecast methodology adopted by VTS was the base-step-trend approach. Base-step-trend is the AER's preferred forecasting methodology for operating expenditure. The base-step-trend approach together with the AER's Efficiency Benefit Sharing Scheme (EBSS) provides an incentive for VTS to operate efficiently. The EBSS is designed to reveal efficient operating costs.

This approach means that the forecast does not reflected expected variations in individual cost categories rather the expectation that opex in total will remain largely static. Total annual actual operating expenditure and the 2017 AER allowance is shown in the table 1 below. In order to facilitate the direct comparison we have adjusted the AER's forecast as contained in the PTRM for actual inflation incurred using a December on December inflation year.

Table 1 Annual variations in actual total operating expenditure and 2017 allowance ($nominal)

	Unit	2017	2018	2019	2020
AER 2017 opex allowance	000s $nominal	26,204	25,713	25,897	25,959
VTS actual opex	000s $nominal	27,623	25,579	24,950	27,968
Variance	000s $nominal	-1,419	134	947	-2,010
Variance	%	-5.4	0.5	3.6	-7.7

As shown, VTS actual operating costs did not exceed the yearly allowance by more than 10%, therefore no further analysis will be performed.

4.5.2 *Annual variations in actual total capital expenditure and 2017 AER allowance*

In the four years from 2017 to 2020, actual capex ('as incurred') was consistently below the AER-allowed forecast, as shown below. The actual capital expenditure for 2017 to 2020, compared to the 2017 allowance is shown in the table 2 below.

Table 2 Variations in actual total capital expenditure and 2017 AER allowance by year ($nominal)

	Unit	2017	2018	2019	2020
AER 2017 capex allowance	000s $nominal	62,492	63,198	73,652	71,318
VTS actual capex	000s $nominal	59,941	24,254	43,336	32,210
Variance	000s $nominal	-2,551	-38,944	-30,316	-39,108
Variance	%	-4.1	-61.6	-41.1	-54.8

While there will always be differences in the nature and timing of projects undertaken, three projects make up the majority of the variance: the deferral of the WORM pending the outcome of the required Environmental Effects Study (EES); the deferral of the Angelsea pipeline[3]; partially offset by expenditure on the Dandenong office refurbishment. After allowing for these two projects, remaining variances are within the +/- 10% band.

	Unit	2017	2018	2019	2020
WORM					
Forecast[4]	000s $nominal	-	23,414	43,586	58,089
Actual	000s $nominal	-	978	7,286	9,275
Variance	000s $nominal	-	-22,436	-36,300	-48,814
Angelsea					
Forecast[5]	000s $nominal	0	13,893	12,517	0
Actual	000s $nominal	0	0	48	0
Variance	000s $nominal	0	-13,893	-12,470	0
Dandenong office					
Forecast[6]	000s $nominal	0	0	0	0
Actual	000s $nominal	797	385	5,028	3,306
Variance	000s $nominal	797	385	5,028	3,306
Total Explained Variance	000s $nominal	797	-35,944	-43,742	-45,508
Total capex variance	000s $nominal	-2,551	-38,944	-30,316	-39,108

3 The Angelsea pipeline was deferred because AusNet, the distribution business, decided not to proceed with construction of an additional gate station.

4 Source: AER Final Decision capex model tab 5.5

5 Source: AER Final Decision capex model tab 5.5. The Dandenong office refurbishment was approved in the 2013-18 access arrangement but was subject to significant scope modifications, resulting in a delay to the project.

6 Source: AER Final Decision capex model tab 5.5.

Unexplained capex variance	000s $nominal	3,348	3,000	-13,426	-6,400
	%	5%	5%	-18%	-9%

5 Worksheet E11. Labour

5.1 Table E11.3 Labour / Non-labour expenditure split

5.1.1 *Costs*

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

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

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

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

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

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

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

  For regulatory years 2011–20, the service provider has been the employing entity for segments of the workforce. All directly attributable costs are recorded in VTS for these employees. APT Management Services (APTMS) is the employing entity for the remaining employees. APTMS recharges salary and wages from APTMS to VTS on a monthly basis. A consistent approach to recoveries and recharges has been applied.

- **Other directly attributable costs** to the pipeline service provider: Other expenses are costs directly attributable to the service provider and are incurred by APA's Transmission business[7]. In order to give a true reflection of the cost of running an asset, it is necessary to allocate a portion of APA's Transmission costs to the asset. APA's Transmission costs are reviewed periodically to determine the extent the business unit's function has a bearing on the assets.

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

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

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

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

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

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

- not directly attributable but allocated on a causation basis;

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

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

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

In the VTS access arrangements, all costs are attributed to the Reference Service, and VTS has attributed all costs to the Reference Service in accordance with the allocation methodology applied in the access arrangements.

5.1.2 *Shared corporate expenditure*

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

APA has utilised the revenue based allocation method for its allocation of shared corporate expenditure as approved by the AER in the VTS access arrangement 2018–22.

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

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

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

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

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

VTS has reported its shared corporate expenditure in the reporting tables as 'Other operating expenses' or 'Non-labour expenditure'. VTS has been allocated a proportional share based on reported transmission revenue.

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

5.1.3 *Transactions with other APA entities*

VTS has no related party transactions for the regulatory reporting period.

In accordance with the resolution of AER Annual RIN Issue 038 VTS has not reported costs allocated or attributed among the APA group as related party transactions in this RIN.

As discussed with the AER, allocation of costs to the pipeline within APA does not constitute related party transactions.

Based on discussions with the AER, labour costs incurred by the service provider and within APA are reported as 'in-house labour expenditure'. Salaries and wages incurred are attributed and allocated to VTS in accordance with methods described in section 5.1.1. As a result, VTS has reported all Labour expenditure as 'in-house labour' in Table E11.3.

APA does not include any margins in the cost allocation process.

VTS does not have any multi-asset nor any associate contracts.

Furthermore, shared costs or any bundled service revenues were not invoiced or paid to a related entity during the regulatory reporting periods.

5.1.4 *Table E11.1 and Table E11.2 are intentionally omitted by the AER from their template*

5.1.5 *Table E11.3 – Labour / Non-labour expenditure split*

Definitions of labour expenditure is in line with the definition in Appendix F to the RIN:

labour expenditure	Includes all expenditure used to deliver reference services and other services provided as a covered pipeline that is associated with people. Labour expenditure relates to: • full time, part time and casual employees; • ongoing and temporary employment contracts; and • labour hire contracts. Labour expenditure includes wages, salaries, overtime payments, bonuses, allowances, incentive payments, superannuation contributions, taxes (e.g. payroll and fringe benefits taxes), termination and redundancy payments, workers compensation, training and study assistance, purchases made on behalf of employees (e.g. protective clothing).

labour expenditure outsourced		Labour used in the provision of contracts for goods and services other than the provision of labour (labour hire contracts).

Transactions involving cost allocations and multi-asset services among APA Group entities were not reported as related party transactions in line with section 5.1.3. Labour costs incurred by another APA entity will be reported as in-house labour expenditure. Labour costs include labour, and on costs contracting and temp staff, and training cost including a component of labour overhead expenditure. As VTS does not outsource labour to related parties, the reported in-house labour expenditure is equivalent to the reported total labour expenditure.

Non-labour expenditure is categorised as costs for contractors, materials, rent, travel, motor vehicle expenditures, plant and equipment hire and any other non-labour related operating expenditure that does not meet definition of labour cost.

Contractor costs reflecting part material and part labour have been classified in their entirety as non-labour expenditure due to lack of a visibility on the labour / non labour component.

5.1.6 *Table E11.3.1- Opex*

Table E11.3.1 Operating expenditure reports operating expenditure into labour and non-labour expenditure in line with definition above and in accordance with VTS Cost Allocation Methodology.

5.1.6.1 Compliance with requirement of notice

Compliance Requirement	VTS Compliance
Labour Operating expenditure	
2.2 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template E11. Labour instructions: 2.2 (a) In table E11.3.1 the pipeline service provider must report the total operating expenditure for each regulatory year split in the following labour categories: (i) in-house labour expenditure; (ii) labour expenditure outsourced to related parties; (iii) labour expenditure outsourced to unrelated parties; and (iv) non-labour expenditure.	Compliant with requirements based on the definitions above.
2.2 (b) The total operating expenditure reported in Table E11.3.1 must reconcile with	These amounts reconcile to Table E1.2.5.

the operating expenditure reported in Table E1.2.5 of regulatory template E1. Expenditure Summary.	

5.1.6.2 Sources of information

The reported figures in these tables were sourced from VTS's Oracle financial system or business records for the regulatory reporting period.

5.1.6.3 Methodology and assumptions

For further information see section 5.1.3 of this basis of preparation. As discussed with the AER, allocation of costs to the pipeline within APA does not constitute related party transactions. All allocated costs have been reported within the cost categorisations.

The service provider was the employing entity for parts of the segments of the workforce during the regulatory period. VTS incurred directly attributable labour costs from other APA entities during the reporting period.

5.1.6.4 Use of estimated information

All amounts are reported as actuals.

5.1.6.5 Material accounting policy changes or changes of allocation

The same policy has been used consistently throughout the period as presented in the regulatory template.

5.1.6.6 Reconciliation

Differences were noted in the operating expenditure compared to previously reported actual numbers. Refer section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

5.1.7 *Table E11.3.2 – Capex*

Capital expenditure (Capex) is defined in section 4.1.1.1 as any expenditure that has been included in the capital base of the pipeline service provider that relates to the purchase or construction of a new asset or increases the functionality of the asset or extends the service life of the asset. In this table the capex is reported on labour categories set out in the relevant table.

Labour expenditure includes all expenditure used to deliver services that is associated with people. For further detail please refer to section 5.1.5 where the definitions have been discussed in more detail.

In-house labour expenditure includes all labour expenditure incurred by the pipeline service provider except outsourced labour expenditure. It is noted that the service

provider is an employing entity for segments of the workforce. Based on discussions with the AER, labour costs incurred by another APA entity are reported as 'in-house labour expenditure'. Salaries and wages incurred are attributed and allocated to VTS in accordance with methods described in section 5.1.1 and 5.1.5. As a result VTS has reported all Labour expenditure as 'in-house labour' in Table E11.3.

5.1.7.1 Compliance with requirement of notice

Compliance Requirement	VTS Compliance
Labour Capex	
2.2 (c) In Table E11.3.2 the pipeline service provider must report the total capital expenditure for each regulatory year using the following labour categories: (i) in-house labour expenditure; (ii) labour expenditure outsourced to related parties; (iii) labour expenditure outsourced to unrelated parties; and (iv) non-labour expenditure.	Complied with in Table E11.3.2. The total capital expenditure has been reported into the relevant labour categories.
2.2 (d) The total capital expenditure reported in Table E11.3.2 must reconcile with the capital expenditure reported in Table E1.1.5 of regulatory template E1. Expenditure Summary.	Complied with as these amounts reconcile to table E1.1.5.

5.1.7.2 Sources of information

The actual amounts for these tables were sourced from VTS's Oracle financial system or business records for the regulatory period and represents actuals.

5.1.7.3 Use of estimated information

All amounts are reported as actuals.

5.1.7.4 Methodology and assumptions

APA has no related party transactions for the regulatory reporting period as stated in section 5.1.3.

VTS incurred directly attributable labour costs from other APA entities during the reporting period. As discussed with the AER, allocation of costs to the pipeline within APA does not constitute related party transactions. No margin is earned on any labour cost

transferred from other entities. All allocated costs have been reported within the cost categorisations.

5.1.7.5 Material accounting policy changes or changes of allocation.

The same method has been used consistently throughout the period as presented in the regulatory template.

5.1.7.6 Reconciliation

Please refer section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

Total forecast capital expenditure reported information for the year 2011 was reconciled to the 2006 access arrangement determination. The regulatory year 2013 had no forecast as mentioned in section 1.1.2 and has therefore not been reconciled to forecast as NA. 2014–16 was reconciled to the AER Final Decision in November 2017. 2016 was a forecast year in latest access arrangement determination.

VTS has not previously been categorising the total capital expenditure in the reported labour categories. No other reconciliation differences noted.

6 Worksheet N1. Demand

6.1 Background and overview of data flow for non-financial information

Field devices at various locations on the VTS continuously record meter data. Flow data is calculated and accumulated in volume and energy. The energy value of the gas is determined based on the characteristics of the gas, which is continuously measured at the entry points and specific exit points. At the end of each gas day the field device performs a calculation from the accumulation registers to determine the Last Gas Day totals.

All data that is determined and recorded in these field devices is conveyed to the VTS SCADA ('supervisory control and data acquisition') system. In the SCADA system, every data point is monitored and alarmed for the appropriate 'off-normal' limits to ensure that the quality of the data is known and the performance of the field devices is maintained.

6.2 A note on data provided by AEMO

Under the market carriage model, all gas and transmission services are allocated through the Declared Wholesale Gas Market. AEMO settles the market and provides historical volumetric data to VTS for billing purposes. All volumetric data provided under the Historical and the Annual Reporting RIN (in worksheet N1. Demand excluding the forecast data in Tables N1.3.3 and N1.4.3) is information provided by AEMO.

VTS has no visibility of any adjustments or corrections that AEMO may have made to the data provided to VTS. VTS has relied on the information provided by AEMO and disclaims responsibility for its accuracy.

There are occasionally errors in the data or data processing between VTS and AEMO. Where errors are identified and corrected in the same calendar year, they will not be apparent in the RIN data. However, where an error is corrected in a subsequent calendar year, the error will impact the RIN information twice: once when the error was made and again when the error is corrected. For example, in December 2019, a DLNG settlements error occurred, for which VTS and AEMO undertook an investigation. The investigation identified that the error was associated with AEMO collection and manual processing of metering data within the AEMO metering database. The error having been identified, AEMO is expected to correct the meter reading in a "special revision" to the data file. Under Rule 249(2), AEMO has up to 18 months from December 2019 to do so; this revision remains outstanding as at April 2021.

Any AEMO data adjustments or corrections may impact the amounts reported in the following Tables:

- N1.1 - Demand - By User Type

- N1.2 - Demand - By Reference Services
- N1.3.1A - Peak Withdrawal Volume - By Location – Minimum
- N1.3.1B - Peak Withdrawal Volume - By Location – Maximum
- N1.3.1C - Peak Withdrawal Volume - By Location – Average
- N1.3.2 - Annual Volume - By Location
- N1.4.1A - Peak Injection Volume - By Location – Minimum
- N1.4.1B - Peak Injection Volume - By Location – Maximum
- N1.4.1C - Peak Injection Volume - By Location – Average
- N1.4.2 - Annual Injection Volume - By Location
- N2.3 – Average Utilisation – By Pipeline

As this impacts the assurance aspect on these tables, please refer to section 2.3.1.

6.3 Compliance with requirements of notice

Compliance Requirement	VTS Compliance
2. Part B: Explanatory Instructions - Workbook 1 & 2 2.3 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template N1. Demand instructions: (a) For each regulatory year, the pipeline service provider must report in table N1.1 the volume of gas metered as having been transported by the gas transmission pipeline for gas powered generation in the regulatory year.	To populate this table VTS reviewed each delivery site on the pipeline and categorised the site based on VTS knowledge of the intended use of the gas when it leaves VTS. Sites with electricity generating equipment connected to an electricity network have been classified Electricity Generation for this RIN. Table N.1.1 aggregates part of the totals from table N1.3.2 – Annual volume. Refer section 6.3.1.3
(b) For each regulatory year, in Table N1.3.1 the pipeline service provider must report the minimum, maximum and average peak volumes which have been withdrawn at each withdrawal point on the gas transmission pipeline.	Refer section 6.3.3
(c) For each regulatory year, in Table N1.3.2 the pipeline service provider must report the amount of gas metered which has	Refer section 6.3.3

withdrawn at each withdrawal point location within their gas transmission pipeline.	
(d) For each regulatory year, in Table N1.3.3 the pipeline service provider must provide the amount of gas which was forecast to be withdrawn at each withdrawal point location within their gas transmission pipeline.	Refer section 6.3.3.1
(e) The pipeline service provider must explain in the basis of preparation the reason for material difference between the amount of gas metered withdrawn at each withdrawal point, and the amount of gas forecast to be withdrawn at each withdrawal point, if the difference is equal to or greater than +/- 10 per cent.	Refer to section 6.4
(f) For each regulatory year, in Table N1.4.1 the pipeline service provider must report the minimum, maximum and average peak volumes which have been injected at each injection point on the gas transmission pipeline.	Refer to section 6.3.4
(g) For each regulatory year, in Table N1.4.2 the pipeline service provider must report the amount of gas metered which has injected at each injection point location within their gas transmission pipeline.	Refer to section 6.3.4.1
(h) For each regulatory year, in Table N1.4.3 the pipeline service provider must provide the amount of gas which was forecast to be injected at each injection point location within their gas transmission pipeline.	Refer to section 6.5
(i) The pipeline service provider must explain in the basis of preparation the reason for material difference between the amount of gas metered injected at each injection point, and the amount of gas forecast to be withdrawn at each injection point, if the difference is equal to or greater than +/- 10 per cent.	Refer to section 6.5

6.3.1 *Table N1.1 – Demand By User Type – Electricity generation users*

6.3.1.1 Definition

electricity generation customers	A business or individual who uses gas transported by the gas transmission pipeline for the purposes of gas powered generation.

6.3.1.2 Source of information

Refer to section 6.1 for sources of information.

The information has been extracted from Energy Component (EC) for 2011 onwards.

6.3.1.3 Methodology and assumptions

VTS–market participants transport gas to a number of locations for a variety of purposes. To populate the table VTS reviewed each delivery site on the pipeline and categorised the site based on VTS's knowledge of the intended gas use once it leaves the VTS. Sites with electricity generating equipment connected to an electricity network have been classified Electricity Generation for this RIN.

Sites categorised as Mixed Purpose may have electricity generation equipment but are:

- not connected to a network; or
- electricity generation equipment connected to the network but not selling electricity into the wholesale market; or
- generation used for other purposes.

These usage amounts have not been included in the tabled totals.

Table N.1.1 aggregates the annual volume for Loy Yang, Valley Power, (both La Trobe zone) Laverton North, Somerton, Newport (all Metro NW zone), and Jeeralang (Tyers zone). None of these tariff zones exclusively serve Gas Powered Generation shippers.

6.3.1.4 Use of estimated information

The reported Gas Usage figures are estimates and have been included in the Estimate workbook.

6.3.1.5 Material accounting policy changes

None in the period disclosed.

6.3.1.6 Reconciliation

VTS has reported withdrawal points in its most recent access arrangement. VTS has not previously reported injection point volumes.

Differences may arise based on the information VTS provided to the regulator in its revised proposal and the last access arrangement determination.

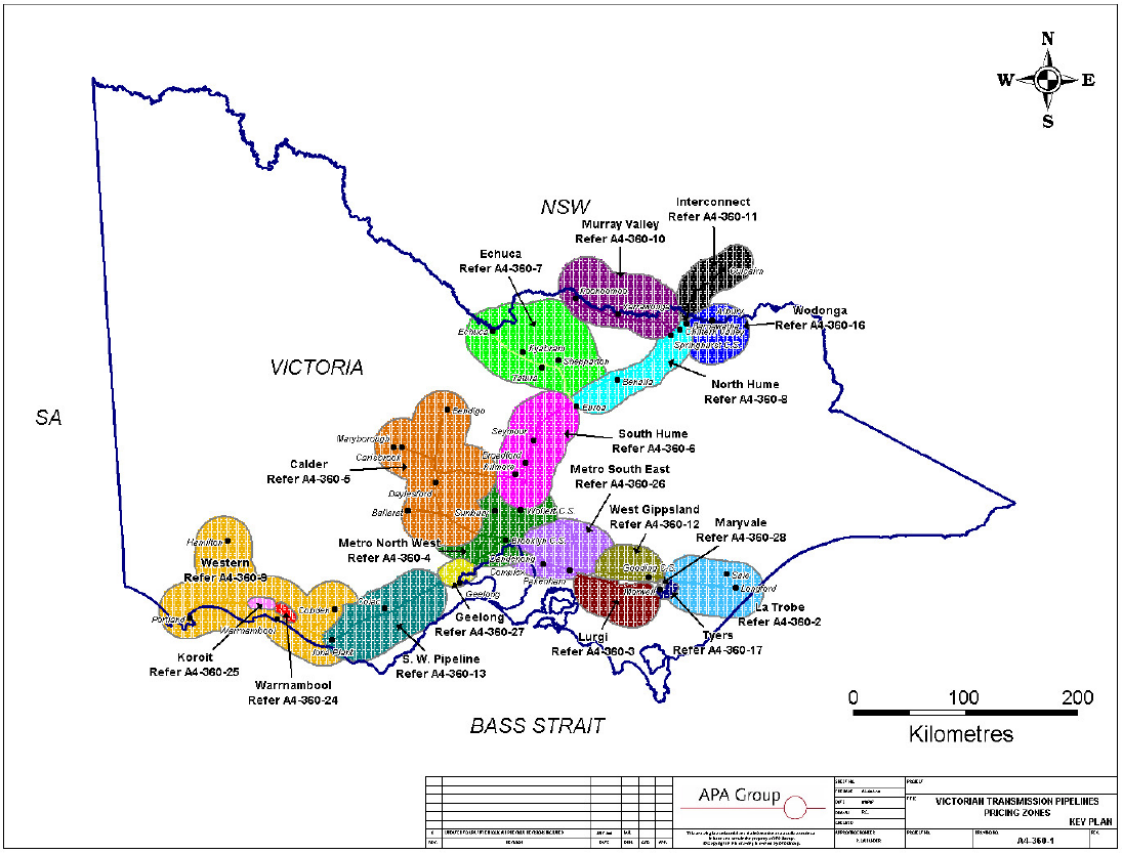
6.3.2 *Table N1.2 – Demand – by reference services*

As discussed above, under the market carriage model, VTS owns and maintains the VTS, but then makes the system available to AEMO to operate. Under this model, VTS offers only one service, the Tariffed Transmission Service[8]. All gas transmission services are provided under this service.

6.3.3 *Tables N1.3, N1.3.1, N1.3.2 - Withdrawals*

This information, using AEMO data, is provided by tariff zone as approved in the access arrangement applicable to the relevant reporting year. Most tariff zones include a number of delivery points, while some include only one.

A map of the delivery zones is shown below:



8 Up until 31 December 2017 provision of AMDQcc was also a reference service. AMDQcc provide 'tie-breaking' rights in the DWGM; it is not a transportation service.

VTS is concerned about disclosing the commercial information associated with particular shippers. As particular delivery zones include a single user, VTS has reported totals for the volumetric information in these tables, but has had to report the individual zone volumes to the AER confidentially.

The Tariffed Transmission Service also applies to volumes that cross the VTS, for which a Cross System Charge is levied. However, as these 'cross system' volumes are not *withdrawals* from the system, they must serve as a reconciling item when reviewing the volumes. In particular, the total volume transported under the Tariffed Transmission Service in Table N1.2 is equal to the total of the Annual Volumes – by Location reported in Table N.1.3.2 including the Cross System volumes.

Cross System volumes are calculated by AEMO as part of its VTS settlement algorithm and reported to APA monthly for billing purposes. VTS does not have data to report the Minimum, Maximum or Average amount of Cross System volumes in Tables N1.3.1 A, B or C.

All withdrawal demand data by zone is reported as confidential information. Total withdrawal data is not deemed confidential.

6.3.3.1 Table N1.3.3 – Forecast annual volume – by withdrawal location

This table reports forecast withdrawal volumes as reported in the Price Control Model approved by the AER in the context of the Access Arrangement commencing in those years.

As above, the total has been reported publicly but individual zone forecasts have been reported confidentially to the AER. There are no forecasts of Cross System volumes.

6.3.4 *Tables N1.4, N1.4.1, N1.4.2 – Injections*

This data is provided by AEMO – see the note on AEMO data in section 6.2 above.

6.3.4.1 Table N1.4.3 – Forecast Annual volume – by injection location

This table reports forecast injection volumes as reported in the Price Control Model approved by the AER in the context of the annual tariff variation process.

It should be noted that VTS injection tariffs are based on the top ten winter peak days[9]; – VTS does not forecast total injection volumes. The forecast volumes therefore represent the sum of the top ten winter peak days and will not relate to the annual or daily data provided by AEMO.

9 See https://www.apa.com.au/globalassets/our-services/gas-transmission/east-coast-grid/victorian-transmission-system/vts-annual-peak-days.pdf

VTS has addressed the question of variances between forecast injection volumes (top ten winter peak days) and actual injection volumes (top ten winter peak days) refer to section 6.5 in this document.

6.4 Response to: 2.Part B: Explanatory Instructions–Workbook 1 & 2

2.3 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template N1 part (e) requires

(e) The *pipeline service provider* must explain in the *basis of preparation* the reason for *material difference* between the amount of gas metered withdrawn at each *withdrawal point*, and the amount of gas forecast to be withdrawn at each *withdrawal point*, if the difference is equal to or greater than +/- 10 per cent.

In the completed Regulatory template, worksheet *N1. Demand* sets out actual demand (gas deliveries) data for VTS.

It is important to note that the majority of the forecast volumes in the VTS Access Arrangements are not prepared by VTS but rather by AEMO. They are then harmonised with AER-approved forecasts for the Victorian gas distribution businesses. An independent GPG forecast was applied in 2018. As a result, VTS does not have visibility of the assumptions underpinning the AEMO or distribution business forecasts, prepared by AEMO and the distribution businesses, not by VTS. VTS does not have visibility of many of the assumptions underpinning the AEMO and distribution business forecast, and as a result cannot explain where actual outcomes have differed from the AEMO and distribution business assumptions.

Having said that, VTS can provide some explanation in two key areas:

1. The extent to which differences between forecasts and actuals are driven by differences between forecast and actual weather; and
2. The extent to which actual GPG volumes differ from forecast.

Note that values discussed in this section relate to withdrawals from the system, and therefore do not include cross-system volumes or volumes used to refill underground or LNG storage.

The overall variance between the AER approved forecast and actual VTS volumes is shown below:

Total withdrawal volumes	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast (PJ)	228.0	233.8	211.3	209.3	214.7	214.1	214.2	215.2	209.7	207.3
Actual (PJ)	226.9	225.4	220.7	205.6	221.9	226.9	245.5	220.0	230.3	223.3

Difference (PJ)	-1.1	-8.4	9.4	-3.7	7.2	12.8	31.3	4.8	20.6	15.9
Difference (%)	-0.48%	-3.60%	4.43%	-1.76%	3.36%	5.99%	14.61%	2.25%	9.83%	7.68%

Weather-driven variance

Gas consumption in Victoria reflects a clear weather-driven pattern, with gas consumption increasing on colder days relative to warmer days. 'Coldness' is measured using Effective Degree Days (EDD). A 'degree day' is a unit used to determine the heating requirements of buildings, representing a fall of one degree below a specified average outdoor temperature (usually 18°C) for one day, calculated as MAX(0,(18 - Average (Max Temp, Min Temp))). Minor adjustments for wind and cloud cover are applied to derive Effective Degree Days. The daily EDDs are accumulated over the year; a higher number of EDDs represents a colder year whereas a lower number of EDDs represents a warmer year.

Forecast and actual EDDs are shown below:

EDD	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Forecast	1,340.0	1,340.0	1,309.0	1,309.0	1,309.0	1,309.0	1,309.0	1,340.0	1,340.0	1,340.0
Actual	1,289.7	1,383.9	1,242.4	1,163.4	1,471.6	1,330.7	1,447.8	1,368.9	1,414.7	1,486.5
Difference	-50.3	43.9	-66.6	-145.6	162.6	21.7	138.8	28.9	74.7	146.5

The VTS Access Arrangement Tariff Variation Mechanism includes an adjustment for forecast volumes driven by temperature sensitivity; that is, the expected difference in expected throughput given a difference between forecast and actual EDD:

EDD sensitivity	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
TJ/EDD	45.6	45.6	44.7	44.7	44.7	44.7	44.7	44.7	44.7	44.7

Multiplying the observed difference between forecast and actual EDD by the EDD sensitivity factor provides an indication of the difference between forecast and actual volumes that can be explained by temperature differences:

EDD sensitivity	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
EDD Difference	-50.3	43.9	-66.6	-145.6	162.6	21.7	138.8	28.9	74.7	146.5
TJ/EDD	45.6	45.6	44.7	44.7	44.7	44.7	44.7	44.7	44.7	44.7

Expected volume Difference (PJ)	-2.3	2.0	-3.0	-6.5	7.3	1.0	6.2	1.3	3.3	6.5

For example, 2014 was warmer than forecast, resulting in an expectation that less gas would be consumed than forecast. In contrast, 2017 was colder than forecast, resulting in an expectation that more gas would be consumed than forecast.

Gas-fired power generation

Gas-fired power generation (GPG) is very difficult to forecast, as GPG gas usage is driven primarily by the circumstances of the electricity market. An example would be drought conditions in 2019 which may have reduced the availability of hydro power, which may have increased the demand for GPG.

Forecast and actual GPG usage is presented below:

GPG	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast	6.2	8.1	6.5	6.5	6.9	7.5	7.9	5.3	1.8	1.9
Actual	8.4	3.4	2.6	4.0	3.2	4.1	15.0	9.6	20.2	6.9
Difference	2.2	-4.7	-3.9	-2.5	-3.7	-3.4	7.1	4.3	18.4	5.0

Summary:

The table below outlines the overall variance between forecast and actual VTS volumes, and identifies the amount attributable to weather and GPG demand:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast (PJ)	228.0	233.8	211.3	209.3	214.7	214.1	214.2	215.2	209.7	207.3
Actual (PJ)	226.9	225.4	220.7	205.6	221.9	226.9	245.5	220.0	230.3	223.3
Difference (PJ)	-1.1	-8.4	9.4	-3.7	7.2	12.8	31.3	4.8	20.6	15.9
Difference (%)	-0.48%	-3.60%	4.43%	-1.76%	3.36%	5.99%	14.61%	2.25%	9.83%	7.68%
Explained by:										
EDD	-2.3	2.0	-3.0	-6.5	7.3	1.0	6.2	1.3	3.3	6.5
GPG	2.2	-4.7	-3.9	-2.5	-3.7	-3.4	7.1	4.3	18.4	5.0
Remaining difference (PJ)	-1.0	-5.7	16.2	5.3	3.7	15.3	18.0	-0.8	-1.2	4.4
Remaining difference (%)	-0.43%	-2.42%	7.67%	2.53%	1.73%	7.13%	8.41%	-0.37%	-0.55%	2.11%

All remaining differences fall below the +/-10 per cent threshold.

6.5 Response to: 2.Part B: Explanatory Instructions–Workbook 1 & 2

2.3 Regulatory template, N1

(i) The pipeline service provider must explain in the basis of preparation the reason for material difference between the amounts of gas metered injected at each injection point, and the amount of gas forecast to be injected at each injection point, if the difference is equal to or greater than +/- 10 per cent.

Under the AER-approved Price Control Model (PCM) injection tariffs for the VTS are levied on the top ten winter peak days in each calendar year. Accordingly VTS does not forecast the annual volume of gas to be injected at each injection point – only the amount of gas forecast to be injected at each injection point for the top ten winter peak days.

As required by the RIN, VTS has reported the *annual* amount of gas actually injected, by injection point, in Table N1.4.2. This will not reconcile with the top ten winter peak day forecast.

VTS publishes the dates of each year's top ten winter peak demand days on its website.[10] For example, in 2020, the top ten winter peak injection days at each Close Proximity Point (CPP)[11] occurred on:

Longford	Culcairn	Pt_Campbell	Pakenham
22-Jun-20	1-Jun-20	9-Jun-20	2-Jun-20
3-Jul-20	28-Jun-20	11-Jun-20	3-Jun-20
25-Jul-20	3-Jul-20	17-Jul-20	4-Jun-20
31-Jul-20	4-Jul-20	23-Jul-20	5-Jun-20
4-Aug-20	6-Jul-20	4-Aug-20	6-Jun-20
5-Aug-20	8-Jul-20	5-Aug-20	7-Jun-20
6-Aug-20	16-Jul-20	6-Aug-20	8-Jun-20
7-Aug-20	17-Jul-20	23-Aug-20	17-Jun-20
21-Aug-20	18-Jul-20	24-Aug-20	18-Jun-20
22-Aug-20	21-Jul-20	25-Aug-20	1-Jul-20

It is noteworthy that, in 2020 at least, there was no single day that was one of the top ten peak injection days for all four Close Proximity Points simultaneously.

Variances by year are summarised below:

10 https://www.apa.com.au/globalassets/our-services/gas-transmission/east-coast-grid/victorian-transmission-system/vts-annual-peak-days.pdf

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

TJ	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Longford										
Forecast	8,134	8,134	6,636	6,547	6,489	6,445	6,427	6,614	6,495	6,407
Actual	7,482	8,793	7,872	7,573	7,747	7,978	8,567	7,002	8,097	8,419
Variance	-8.0%	8.1%	18.6%	15.7%	19.4%	23.8%	33.3%	5.9%	24.7%	31.4%
Culcairn										
Forecast	139	139	582	582	582	582	582	660	660	660
Actual	5	63	76	469	535	506	742	1,006	1,449	1,454
Variance	-96.4%	-54.5%	-86.9%	-19.4%	-8.0%	-13.1%	27.5%	52.5%	119.6%	120.4%
Pt Campbell										
Forecast	2,716	2,826	3,424	3,424	3,715	3,715	3,715	4,290	4,290	4,290
Actual	3,448	3,422	3,165	3,148	3,585	2,909	3,114	3,286	3,225	2,192
Variance	26.9%	21.1%	-7.6%	-8.1%	-3.5%	-21.7%	-16.2%	-23.4%	-24.8%	-48.9%
Pakenham										
Forecast	657	657	534	534	534	534	534	578	578	578
Actual	568	32	663	437	633	537	651	523	399	373
Variance	-13.5%	-95.1%	24.2%	-18.2%	18.6%	0.7%	22.1%	-9.4%	-30.9%	-35.4%
Total										
Forecast	11,645	11,755	11,175	11,087	11,320	11,276	11,258	12,142	12,023	11,934
Actual	11,503	12,310	11,776	11,613	12,500	11,930	13,074	11,817	13,170	12,438
Variance	-1.2%	4.7%	5.4%	4.7%	10.4%	5.8%	16.1%	-2.7%	9.5%	4.2%

The variances in consumption across the top ten winter peak days are likely to be caused by temperature variation. However, the information available to VTS does not indicate the number of EDDs expected over the top ten winter peak days supporting the forecast demand. VTS is therefore unable to compare over the actual EDDs over the actual top ten winter peak days. VTS can offer no further explanation of the differences between actual and forecast volumes over the top ten winter peak days for each year.

The wide variation by injection point illustrates the changes in gas supply arrangements over the course of the reporting period. These arrangements reflect market participant contracting positions, of which VTS has no visibility. While variations by injection point can be large in percentage terms, the differences between system-wide forecast vs actual injections are quite small. As discussed in the EDD analysis above, the largest variance, reported in 2017, may be attributable to this being a relatively cold winter.

7 Worksheet N2. Network Characteristics

7.1 Background / Overview

VTS delivers gas to the Melbourne metropolitan area, country Victoria, New South Wales, and South Australia. VTS transports gas to more than 2 million residential consumers, and 60,000 industrial and commercial users throughout Victoria. VTS is 2,267 kilometres long and consists of 51 licensed pipelines and associated facilities.

Construction of VTS began in the mid-1950s. Gas can enter or exit the system from the Longford gas plant and the VicHub in the east; Culcairn in New South Wales; the western underground gas storage (WUGS) facility at Iona; the SEA Gas Pipeline; Otway Gas Plant and Mortlake Pipeline through their connection to the SEA Gas Pipeline at Port Campbell; the Pakenham facility; and the Dandenong LNG facility. Gas can also be injected from the Tasmanian Gas Pipeline (TasHub) into the VTS at Longford. Gas is principally sourced from offshore gas fields in the Gippsland, Bass and Otway basins.

The capacity of the VTS has been progressively expanded between 2014–17 to transport additional gas between New South Wales and Victoria at Culcairn. In 2015, additional capacity on the South West Pipeline was added for gas flows from the facilities at Iona and the SEA Gas Pipeline at Port Campbell.

7.2 Compliance with requirements

For each regulatory year, the pipeline service provider must report for each pipeline that forms part of the gas transmission pipeline (including any laterals):

(i) the length of the pipeline (table N2.1)

(ii) the capacity (GJ/day) of the pipeline (table N2.2);

(iii) the average utilisation of the pipeline (table N2.3); and

(iv) the capacity of the pipeline that has been contracted on a firm basis to users (table N2.4).

The requirements are complied with and reported under each section.

This worksheet is subject to limited assurance by the auditors and the information has been deemed an estimate as per RIN requirements.

7.2.1 *Table N2.1 – network length – by pipeline*

The pipeline lengths have been expressed by the relevant configuration each year. Section lengths have been calculated based on the section distances between facilities using the kilometre points (KPs). The length of the pipeline in table N2.1 represents the regulatory asset including the required laterals. The VTS consists of over 50 pipeline

licences and VTS considers that reporting all the pipeline lengths in that way is not meaningful; a geographical aggregation of certain segments provides more meaningful data.

VTS has reported the lengths of the pipelines consistent with the sections of the pipeline as presented in the 2019 yearly AEMO Victorian Gas Planning Report[12] and prior years RIN reporting, notably:

- Longford to Melbourne (LMP)
- South West Pipeline (SWT)
  - Iona to Melbourne
  - Melbourne to Iona
- Victorian Northern Interconnect (VNI)
  - Melbourne to Culcairn
  - Culcairn to Melbourne
- The Western Transmission System (WTS)
  - Iona / Port Campbell to Portland

As some of these pipelines are looped, VTS has reported route kilometres rather than pipeline kilometres.

For those interested in the lengths of all the particular pipeline segments, please refer to the schedule in the Service Envelope Agreement, as posted on the AEMC pipeline register.[13]

System	Length Description	Pipeline Route System Length (km)
LMP	Longford to Melbourne	174.2 [14]
VNI	Melbourne to Culcairn	331.9[15]
	Culcairn to Melbourne	
SWP	Iona to Melbourne	201.9
	Melbourne to Iona	

12 See AEMO, Victorian Gas Planning Report, https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/vgpr/2019/2019-victorian-gas-planning-report.pdf?la=en Table 19.

13 https://www.aemc.gov.au/sites/default/files/content/e07a1ce3-a8e2-49ee-9aae-bb4f03da34ae/VTS-Pipeline-description-Gas-Scheme-register-Feb-2017.doc

14 The LMP length including loops is 258 km.

15 The VNI length taking into both the T74 pipeline and T119 (VNI) pipeline is 590.5 km. The VNI expansion which looped the T74 pipeline from 2014-2017 increased the length by 258.6 km.

WTS	Iona to Portland	224.9
Total		**933**

7.2.2 *Table N2.2 – network capacity- by pipeline*

As discussed above, the VTS consists of over 50 licensed pipelines. The VTS being a largely integrated network, the capacity of any one of the VTS pipelines depends significantly on the dynamics of injections and withdrawal volumes and locations, and the pressures and flows of pipelines upstream. As a result, VTS does not report the capacity of individual pipelines within the VTS system.

As with pipeline lengths discussed above, VTS has reported pipeline capacity of the pipelines consistent with the yearly AEMO Victorian Gas Planning Report2019. [16] This is also consistent with the way VTS has reported pipeline capacity in previous Access Arrangement reset RINs. It is noted that previously the Victorian Northern Interconnect has been referred to in historical Reset RINs as the New South Wales Interconnect. VNI is the more accurate description aligning to the AEMO Victorian Gas Planning Report.

System	Section	Maximum Capacity (TJ/d)	Maximum Operating Capacity (TJ/d)	Comments
LMP	Longford to Melbourne	1030	1030	No change from previous years.
VNI	Melbourne to Culcairn	223	202	223 TJ/d is the maximum capacity achieved during summer conditions when the system demand is low. **202** TJ/d is the 1 in 20 winter peak capacity which is normally declared as the capacity of the VNI pipeline. This capacity can be guaranteed all through the year. The increase in capacity from 2014 - 2017 due to the staged construction of the Victorian Interconnect Pipeline.
	Culcairn to Melbourne	226	170	Limited to **170** TJ/d due to constraints on the New South Wales Transmission network.
SWP	Iona to Melbourne	415	415	Capacity increase from 2015 due to installation of Winchelsea compressor. Capacity will be further increased with the commissioning of the WORM pipeline in 2023.

16 See AEMO, Victorian Gas Planning Report https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/vgpr/2019/2019-victorian-gas-planning-report.pdf?la=en Table 19.

System	Section	Maximum Capacity (TJ/d)	Maximum Operating Capacity (TJ/d)	Comments
	Melbourne to Iona	145	145	Increase in from 2018 due to reconfiguration around Brooklyn and Winchelsea Compressor made bi-directional to increase capacity to Iona. Capacity will be further increase with the commissioning of the WORM pipeline in 2023.
WTS	Iona to Portland	28	28	No change from previous years
Total		**2067**	**1990**	

This form of reporting accommodates the fact that some of these pipelines are bi-directional. Furthermore, reporting consistent with other sources should allow for easier verification by AER.

7.2.3 *Table N2.3 – average utilisation – by pipeline*

The average utilisation values in Table N2.3 have been calculated by average daily net injection volumes from Table N1.4.1C expressed as a percentage of injection pipeline capacity from Table N2.2 in each year. Where more than one injection point is situated on the injection pipeline, the averages from Table N1.4.1C are added (that is, reported volumes are Average (Longford) + Average (Pakenham) rather than Average (Longford + Pakenham)). The same approach applies to the Iona Close Proximity Point.

7.2.4 *Table N2.4 - Firm contracted capacity – by pipeline*

Under the Market Carriage model, users are allocated pipeline access according to their dispatch of gas through the Declared Wholesale Gas Market. As a result, there is no scope to contract for firm capacity on the VTS. As VTS does not have any firm contracts on the VTS this table will report NIL values.

8 Worksheet S1. User numbers

Definition as per Appendix F to the RIN.

user numbers	The number of users of each withdrawal point on the gas transmission pipeline.

'User' is defined in the NGL as 'a person who is a party to a contract with a service provider under which the service provider provides or intends to provide a pipeline service to that person by means of a scheme pipeline'. In the context of the VTS, we have defined 'user' as a DWGM Market Participant that has executed a Transmission Payment Deed with VTS as required under Rule 327. The counterparty to a Transmission Payment Deed may not have used the system in the reported year.

8.1.1 *Table S1.1 – Electricity user numbers – by user type*

Strictly speaking, VTS does not have visibility of the use of the gas downstream from the delivery point. The following response is based on our commercial knowledge of the pipeline and its customers. On this basis, the VTS has decided to only include those locations and meter readings for gas fired power stations for this purpose. VTS had six electricity generation users (representing the volumes for the shippers who has a gas fired power generation) in each calendar year: Loy Yang, Valley Power, (both La Trobe zone) Laverton North, Somerton, Newport (all Metro NW zone), and Jeeralang (Tyers zone).

8.1.2 *Compliance with requirements*

Compliance Requirement	VTS Compliance
2.5 Part B: Explanatory Instructions - Workbook 1 & 2 Historical and Annual Performance Data, regulatory Template S.1 User numbers.	
2.5 (a) For each regulatory year, the pipeline service provider must report in table S1.1:	Refer row 13 in the table S1.1.
(i) the total new users. This is the total number of users who commenced using gas transported by the gas transmission pipeline for the purpose of gas powered generation in the regulatory year; and	VTS defines new user as the new users that have executed a Transmission Payment Deed in the reporting year.
(ii) the total user abandonments. This is the total number of users who no longer use gas transported by the gas transmission pipeline for the purpose of gas powered generation in the regulatory year.	A Transmission Payment Deed is terminated only on the party ceasing to be a Market Participant, or on an insolvency event. By this definition, no disconnections occurred during any of the years.

2.5 (b) The users on the last day of each regulatory year in table S1.1 is the total of: (i) the users on the first day of each regulatory year; (ii) plus (+) the total new users; and (iii) less (-) the total user abandonments	Refer to table S1.1 for the total of users.
2.5 (c) In table S1.1, the number of users on the first day of each regulatory year should equal the number of users on the last day of the previous regulatory year as provided in (b) above. The pipeline service provider must provide a reconciliation in the basis of preparation if this does not occur.	Compliant with requirements as the numbers reconciles.

8.1.3 ***Table S1.2.1 & S1.2.2 – User numbers by Reference Service as at 1 January and 31 December***

As discussed in the context of Table N1.2, under the market carriage model, VTS offers only one service – the Tariffed Transmission Service. All Users are served under this single service.

9 Worksheet S10. Supply quality

9.1 Table S10. - Supply quality

9.1.1 *Table S10.1- Pressure Faults –*

poor pressure event	An event where pipeline pressure was outside the normal range, and action was taken to restore pressure.

The RIN definition of poor pressure events uses the term 'normal range' but does not specify what a normal range might be. Pressure variation occurs regularly, as a result of producer production issues and shipper nominations, receipts and deliveries. This, however, is considered 'normal' in the operation of a pipeline.

In the context of its regulated contract carriage pipelines, and based on discussions with the AER, APA has interpreted the definition of 'poor pressure event' to refer to pressure events where the Service Provider failed to meet its contractual pressures to its customers.

Under the Declared Wholesale Gas Market, the Declared Transmission System Service Provider (VTS) must enter into an agreement under s91BE(1) of the National Gas Law (the Service Envelope Agreement) for the control, operation, safety, security and reliability of the declared transmission system. VTS makes the system available to AEMO according to the Service Envelope Agreement; AEMO is responsible for operating the system in such a way as to meet the pressure obligations outlined in the connection agreements with direct customers and distribution networks. For the purpose of this Annual Reporting RIN, VTS has defined 'poor pressure event' as an event in which it has failed to meet its obligations under the Service Envelope Agreement.

However, Table S10.1 requires VTS to report 'Poor pressure events impacting users'. In this respect the poor pressure event would be one that caused AEMO to dispatch out-of-merit-order gas in the settlement of the Declared Wholesale Gas Market, which resulted in uplift payments under the DWGM. Rule 240(9) provides for a DTS Service Provider uplift 'attributable to the failure of the declared transmission system service provider to fulfil its obligations under its service envelope agreement'. In this regard, VTS reports those instances when a poor pressure event has impacted users; that is, where the poor pressure event has resulted in the dispatch of out-of-merit-order gas and AEMO has required VTS to pay a DTS Service Provider uplift.

For example, on 13 December 2018 the Springhurst Compressor Station was struck by lightning, which caused the compressor to be out of service until 2 January 2019. In correspondence dated 23 May 2019, AEMO noted:

> While APA did not make the Service Envelope Capacity available during the period when the Springhurst Compressor Station was being repaired [that is, VTS

failed to meet its obligations under the Service Envelope Agreement], this outage did not cause a transmission constraint. As such, no uplift was incurred [that is, no Users were impacted].

Because no Users were impacted, this event does not fall within the AER definition and is therefore not reported as a 'poor pressure event' in this RIN. As it is not reported as a 'poor pressure event' the question of whether the lightning strike was a Force Majeure event is not considered for the purposes of this reporting.

In the s10.1 pressure events tables, the same poor pressure events are represented as user impact events and Force Majeure or Non Force Majeure events. They are however, the same events. Where VTS has reported a poor pressure event, it will report poor pressure events arising from matters outside its control as Force Majeure events (Row 16). VTS will report 'Non-Force Majeure' pressure events (Row 17) as those that resulted in VTS not meeting its obligations under the Service Envelope Agreement.

9.1.1.1 Poor Pressure events impacting users (row12)

In table S10.1 (row 12) VTS reported two poor pressure events over the years impacting end users and ensued a DTS SP uplift. The two events were:

- Winchelsea CS Trip on 1 June 2015–Winchelsea CS triggered a fast stop lockout alarm while it was not running–due to loose electrical wire that communicates with the PLC controller.
- Brooklyn CS Bellows Unit 11 and 12 (and 10) on 23 February 2018 comprising failure of the Unit 11 and 12 (and10) exhaust bellows at the Brooklyn Compressor Station (BCS).

9.1.1.2 Poor Pressure events impacting users >12 hours resolution (row 13)

The Brooklyn bellows unit of the reported poor pressure events on row 12 took longer than 12 hours to repair.

9.1.1.3 Poor Pressure events – Force Majeure

Both poor pressure events were reportable as Force Majeure for the reporting period.

These reportable events are the poor pressure events of larger magnitude that were claimed as Force Majeure events.

9.1.1.4 Poor Pressure events – Not Force Majeure

None reported for VTS.

Compliance Requirement	VTS Compliance

2.6 Part B: Explanatory Instructions - Workbook 1 & 2 Historical and Annual Performance Data, regulatory Template S10 Supply Quality: (a) For each regulatory year, in table S10.1 the pipeline service provider must report:	
(i) the poor pressure events which relate to force majeure events; and	See section 9.1.1.3 – two poor pressure events impacting customers reported over the regulatory periods and both of these were deemed Force Majeure.
(ii) the poor pressure events which do not relate to force majeure events.	See heading 9.1.1.4 none for the reporting period.
2.6 (b) For each regulatory year, in table S10.1 the pipeline service provider must also report all poor pressure events which affect more than one user or take over 12 hours to resolve.	Two poor pressure events impacting customers were reported in this period on line item 12 in the table S10.1. Only one of these events took more than 12 hours to resolve, which is reported on row 13 in table S10.1

10 Worksheet S14. Network integrity

10.1 Table S14. Network integrity

10.1.1 *Table S14.1 Loss of containment*

10.1.1.1 Table S14.1 Row 11 & 12 number of leaks - publicly reported and reported through survey and Table S14.1 Row 13 repaired leaks

APA undertakes the activities detailed in table 1 below to identify leaks and corrosion to the pipeline. Leaks can also be identified by members of the public through the odourisation of gas giving it a peculiar 'smell'. Furthermore, leaks from a gas transmission pipeline will be at high pressure and will normally be accompanied by a loud hissing noise.

There have been no loss of containment issues or leaks on the VTS in the reporting period.

Table 1: Survey Types, frequency and purpose

Type of Survey	Frequency	Purpose	Reported kms in table S14.2
Vehicle Patrol	Daily	High consequence areas only: Prevent damage to pipeline by third parties (predominantly civil works).	N
Vehicle Patrol	Fortnightly	Prevent damage to pipeline by third parties (predominantly civil works). Monitor for washouts (e.g. soil cover removed by flooding river). Check for damage to compounds or pipeline marker signs.	N
Aerial Patrol	Fortnightly		N
Foot Patrol	Fortnightly	APA employees performing foot patrol to prevent damage to pipeline and monitor pipeline compounds.	N
CP survey	Annual/ Six monthly	Measure the level of Cathodic protection as all CP test posts Monitor functionality and condition of power units and anode bed installations	N
DCVG survey	Ad hoc	Identify coating defects.	Y
In-line Inspection	10-15 years	Identify and locate manufacturing and construction defects, corrosion, cracking, mechanical and/or environmental (e.g. strain) damage to the pipeline	Y
*CP = Cathodic Protection			

10.1.1.2 Table S14.1 Length of network subject to survey row 14

The reported information on row 14 in Table S14.1 Length of network subject to survey represents pipeline kilometres.

VTS Length of Network subject to survey definition:

'survey' is not a meaningful term for gas transmission pipelines. Through discussions with the AER, VTS has landed on the following definition:

In this RIN response 'Length of pipeline subject to survey' is defined as follows:

'**survey**' includes any type of inspection or condition monitoring activity, including:

- Pigging (intelligent or otherwise);
- Visual inspection;
- Direct Current Voltage Gradient (DCVG) testing (including DCVG dig-ups);
- Cathodic protection surveys;
- Coating inspections; and
- Any other activities that inspect and monitor the condition of the pipeline.

Completed surveys that are not related to condition monitoring have not been included in the reporting templates. For example aerial surveys from a plane or helicopter which are completed on a monthly basis for the entire length of the asset.

- '**subject to**' means that the activity was undertaken for the relevant year

Except as described more fully below, the distance reported in kilometres reflect the number of kilometres where particular inspection activities (pigging, DCVG testing and dig-ups, visual inspection, cathodic protection survey, coating inspections etc.) have been undertaken. For example, in instances where multiple inspection activities have been completed on a single kilometre of pipeline, VTS has reported that one kilometre of pipeline being 'subject to inspection'.

In interpreting this information, it is important to be cognisant of the looped nature of some of the VTS pipelines. As discussed below, some measures will be reported over 'route kilometres whereas others will be reported over 'pipeline kilometres'. The distance reported in kilometres reflect the number of *route kilometres* subject to cathodic protection survey, and the number of *pipeline kilometres* where pigging, Direct Current Voltage Gradient (DCVG) testing and dig-ups, visual inspection and coating inspections have been undertaken.

To detect integrity issues that can lead to leaks, VTS uses:

- In-line inspection (ILI) tools, known in the industry as Intelligent Pigs, whereby an instrument is inserted into the pipeline and pushed along by the gas flow measuring the amount of metal left in the pipeline and most importantly, areas where corrosion or other pipeline damage has occurred.
- Coating Surveys using the Direct Current Voltage Gradient (DCVG) technique

- Easement Patrols where a technician drives on or adjacent to the pipeline easement looking for signs of leaks.

The frequency of pipeline easement patrols varies across the VTS according to the location class of each pipeline section and varies from daily in metropolitan areas through to monthly in rural areas. Pipeline patrols are a combination of ground and aerial patrols and the frequency is determined on a risk assessed basis confirmed by the 5 yearly Safety Management Study.

The patrols are used to check the condition of the easement for line of sight, signage, gas leaks, check for weeds and erosion and detect unauthorised encroachment.

Sightings from patrols are recorded via a formal 'sighting report' and actioned as corrective maintenance via the computerised maintenance management system.

Ground patrols are performed daily on week days on all metropolitan and T1 (general urban development/housing of a non-high-density class) classification pipelines in 23 locations, weekly at three locations, quarterly at 30 locations and six monthly at 13 locations across the VTS.

10.1.1.3 Cathodic Protection Surveys

Cathodic Protection (CP) surveys are being conducted on a 6 monthly basis to ensure that the system is operating effectively and that the physical components of a CP point were in working order.

Data loggers have been installed on all pipelines which allows for CP points and their performance to be tracked with live data. This has resulted in CP surveys being extended to an annual basis, however if a test point is not operating properly the data logger can identify it for a corrective maintenance work order to be issued.

10.1.2 *Table S14.2 – Instances of damage row 21*

Definitions per Appendix F to the RIN:

instances of damage	An event in which damage occurs to the gas transmission pipeline.
damage	Any physical impairment that adversely affects the operation of the gas transmission pipeline including deformation, gouge, coating deterioration and corrosion.

VTS notes that a definition of an instance of damage is a physical impairment *adversely* affecting the operation of the gas transmission pipeline.

VTS perform routine maintenance activities (such as dig ups and corrosion and coating repairs) without impacting the flowing conditions of the asset. These do not adversely affect the operation of the gas transmission pipeline and are not reported as instances of damage.

There has been one event in September 2014 in which the Longford to Dandenong Pipeline at Bonneville Parade, Beaconsfield, was hit by a directional drill installing communication wires to a new housing estate. This was detected by a pipeline patrol. This event did not adversely affect the operation of the gas pipeline and is not included in the reporting of instances of damage.

VTS therefore reports no instances of damage during the reporting period that affected the operation adversely.

Compliance Requirement	VTS Compliance
2.7 Part B: Explanatory Instructions - Workbook 1 & 2 Historical and Annual Performance Data, regulatory Template S14 Network Integrity: (a) For each regulatory year, in table S14.1 the pipeline service provider must report the length of the gas transmission pipeline subject to leak survey in kilometres.	See section 10.1.1.2
(b) For each regulatory year, in table S14.2 the pipeline service provider must report the instances of damage per kilometre of gas transmission pipeline. For other asset types the pipeline service provider must report the cumulative instances of damage.	VTS has reported the number of damage incidents in accordance with Regulatory template headings. VTS keeps tracks of number of incidents as opposed to damage per kilometre of gas transmission pipeline. AER agreed to this departure from the RIN requirement on 9 June 2020.

11 Worksheet F1. Income

11.1 Table F1. Income

The VTS Financial reporting system Oracle is the financial system and the primary source of financial information. This system is the underlying source of financial information disclosed in APA's audited consolidated financial statements. These Statutory financial statements are prepared in accordance with the requirements of Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Financial information extracted from the Oracle financial system underpins the reported amounts in the VTS ARIN reporting unless otherwise specified. Mainly:

- **Revenue:** VTS revenue recognition complies with the revenue recognition principles prepared in accordance with the requirements of Australian Accounting Standards. APA obtains volumetric data on a monthly basis from AEMO which is entered into APA's hydrocarbon system and automatically into Oracle.
- **Operating direct costs:** VTS operating cost categories are materially in line with the categories identified in the RIN.

For these reporting purposes, APA has allocated to VTS shared corporate expenditure based on a revenue allocation method and shared assets based on the allocation of shared corporate expenditure. Refer to Section 5.1.2 for corporate cost allocation 4.1.1.4 for shared assets for further details.

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

The trial balances represents the financial information for the legal entity, APT VTS Australia (Operations) Pty Ltd, the VTS service provider in accordance with the definition above. This trial balance is made up of several reporting business segments. Of the several reporting business segments, one relates to the covered pipeline, while the other reporting business segments do not form part of the regulated asset and are outside of the RIN scope. The historical and annual RIN reporting only relates to the financial information for the covered pipeline.

Due to the audit relief from AER this worksheet has not been subject to audit for the years 2013–19. The Annual RIN for year 2020 was subject to audit.

11.1.1 *Table F1.1 Audited statutory accounts*

In this table, the pipeline service provider must report the audited statutory trial balance revenue, expenditure and income tax expense (or benefit) for the service provider for the regulatory year using the appropriate categories set out in the table.

The AER approved in written form that the service provider was not required to prepare audited statutory trial balances for the initial regulatory years 2013–19. Due to the audit relief, the service provider has reported the unaudited statutory trial balance revenue, expenditure and income tax expense (or benefit) for the regulatory years using the appropriate categories set out in the table

The AER has provided written consent to the approach of reporting information sourced from unaudited statutory trial balances and, as a result, the entirety of tab F1 Income (which includes table F1.1) is excluded from assurance.

The amounts reported by the service provider in this table in the historical regulatory reporting are deemed actuals as unaudited statutory trial balances were sourced from the Oracle financial system.

For the 2020 regulatory year the service provider has had its statutory trial balance audited. The tables in the 2020 Annual reporting template represents actuals as the audited statutory trial balances were sourced from the Oracle financial system.

11.1.1.1 F1.1.1. – Revenue

This table includes total revenue, capital contributions, profit from sale of fixed assets and other revenue as derived from the trial balance for the service provider, not only for the regulated business.

Transmission revenue as defined in Appendix F to this RIN:

transmission revenue	Revenue earnt by the pipeline service provider from the provision of reference services and other services provided as a covered pipeline. This excludes capital contributions.

- VTS has no capital contributions due to the carriage model. No contributions have been received in any of the years in the reporting period.
- For financial reporting purposes the First Carryover Amount creates two different reconciling items compared to the regulatory reporting:
    - In the last year of the AA: For statutory reporting to comply with the accounting standards, the First Carryover Amount is reported as a deduction to revenue and creates a liability. This reconciling item is present in the regulatory years 2013 and 2017 when the liability for the First Carryover Amount is recorded.

- VTS reports the First Carryover Amount for statutory reporting purposes (for further information see Appendix D.6 of the 2018–23 AA) in full in the first year of the subsequent AA, whereas the First Carryover Amount is recovered across the five-year regulatory period for regulatory price setting purposes. This results in a reconciling item between the revenue recognised for financial reporting purposes and revenue received in accordance with the AA in the first year of the new AA period. This reconciling item is present in 2014 and 2018 as these are the first years in the subsequent AAs.

- Profit from sale of fixed assets represents the accounting standards defined profit from sale of assets.
- Other revenues consists of deferred revenue amortisation from non-transmission contracts and third party works.

11.1.1.2 Compliance with requirements

Compliance Requirement	VTS Compliance
2. Part B: Explanatory Instructions - Workbook 1 2.8 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template F1. Income instructions: (a) In table F1.1 the pipeline service provider must report the audited statutory accounts revenues, expenditure and income tax expense (/benefit) for the regulatory year using the appropriate category set out in table F1.1.	The RIN requires VTS to report financial transactions starting from audited statutory accounts less adjustment to derive regulatory accounts for the transmission pipeline service provider. Prior to the RIN requirement. VTS was not required to audit its statutory financial accounts. AER has agreed to remove assurance requirements for an audited statutory trial balance for the 2013–19 regulatory years. As a result the worksheet F1 has no audit or review assurance on table F1.1 and F1.2. – F1.4 is greyed cells and therefore does not require any assurance. For the 2020 regulatory year this worksheet was subject to audit. Refer table F1.1.1 – Revenue, F1.1.2 – Expenditure and F1.1.3 Profit for the reported amounts.
(b) In table F1.2 the pipeline service provider must report the adjustments made to the audited statutory accounts to report the gas transmission pipeline's revenues, expenditure and income tax expense(/benefit) for the	The adjustments are required to reflect the regulatory accounts which represents the roll forward asset base and other regulatory adjustments such as depreciation and net finance expenses.

regulatory year using the appropriate category set out in table F1.2.	
(c) For each adjustment made in table F1.2 the pipeline service provider must in the basis of preparation:	Adjustments from table F1.2 are further explained in section 11.1.2 until 11.1.5.
i) specify the amount of the adjustment; and	Refer to the adjustment part of the regulatory reporting template on tab F1 table F1.2
ii) describe the nature and basis of each adjustment.	Refer to the description above.

11.1.1.3 Table F.1.1.2 Expenditure

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

Depreciation expense are generated from the fixed asset register in line with the accounting standards and depreciated based on the VTS accounting useful lives for each asset class.

Net finance expenses in the trial balance before adjustments represents an amount of intra entity interest expense allocated on a causation basis. APA Group raises capital at the corporate level; accordingly, the VTS trial balance records no amounts for interest costs or debt raising costs.

Loss from sale of fixed assets represents the accounting standard's defined loss from sale of fixed assets.

No impairment losses has been recorded for VTS during the regulatory period.

11.1.1.4 Table F.1.1.3 Profit

The income tax expense is equal to 30% of the accounting profit for the calendar year.

11.1.1.5 Reconciliation

Refer section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

11.1.2 *Table F1.2 – Adjustments*

The adjustments are the amounts necessary to derive at the regulatory accounts for the regulated business and are reported in the table F1.2.1. The adjustments represents the exclusion of the other activities that are not related to the covered pipeline and regulatory adjustments.

In this table, the pipeline service provider must report the adjustments made to the audited statutory trial balances to report the gas transmission pipeline's revenue, expenditure and income tax expense (or benefit) for the regulatory year using the appropriate categories set out in the table.

As the service provider was not required to prepare audited statutory trial balances for the historical years 2011–19, the reported adjustments for these years are unaudited. 2020 has been subject to audit.

The AER has provided written correspondence that they consent to the approach of reporting unaudited information sourced from statutory trial balances and as a result the total tab F1 Income (which includes table F1.2) is excluded from assurance for the historical years 2011–19.

The amounts reported by the service provider in this table are deemed as actuals as the unaudited statutory trial balances were sourced from the Oracle financial system and business records. The service provider has reported the adjustments and the amounts of the adjustments are detailed in F.1.2.1-Revenue, F1.2.2-Expenditure and F1.2.3 – Profit.

11.1.3 *Table F1.2.1 – Revenue*

Adjustments in table F 1.2.1 are:

- Transmission revenue adjustments is revenue that does not meet the transmission revenue definition as per Appendix F to the RIN.
- Revenue relating to the First Carryover Amount are recognised differently for financial reporting and regulatory purposes.
- Profit from sale of fixed assets represents a reversal of the profit under financial accounting to reflect the cash proceed for the regulatory approved capex.

11.1.4 *Table F1.2.2 – Expenditure*

- Operating expenditure adjustments reported in table F 1.2.2 relates to:
  - the allocation of shared corporate expenditure in the period 2016–20 as these costs are no longer recorded directly in the statutory ledger (see section 5.1.2);
  - operating expenditure adjustment to exclude the operating expenditure relating to the third party activities; and
  - other regulatory adjustments such as costs treated as capital expenditure for the statutory reporting purposes and operating expenditure for the access arrangement.

- Depreciation adjustments represents the adjustment necessary to reflect the total regulatory depreciation expense which is the forecast depreciation drawn from the AER's approved Post Tax Revenue Models, as it relates to the relevant access arrangement, and includes the indexation on the opening capital base and the WACC adjustment on additions, as discussed in section 18.1.2.

- The net finance expenses adjustment represents the amounts necessary to derive the regulatory finance expenses for the service provider in line with the regulatory accounts. The finance expense amount reported in the regulatory accounts represents interest expense on the notional debt-funded portion of the regulatory capital base and debt raising costs.

Interest expense applicable to VTS has been determined by applying the AER's approved Nominal Pre-tax Return on Debt to the debt-funded proportion of the average capital base for each regulatory year. The Nominal Pre-tax Return on Debt rates used to calculate interest expense has been sourced from the access arrangements.

Debt raising costs applicable to VTS have been determined by applying an approved factor to the debt-funded proportion of the average capital base for each regulatory year.

The total regulatory net finance expenses after adjustments in table F1.4.2 reconciles to the regulatory accounts. The debt raising cost in table E1.2.1 is only the debt raising costs of the amount in table F1.4.2. These amounts are deemed actuals as the calculations are based on the approved approach applied by the AER in its final determination for the relevant access arrangement period.

11.1.5 *Table F1.2.3 – Profit*

The adjusted profit number is based on an assumed 30% corporate tax rate on profit before tax after adjustments.

11.1.6 *Table F1.3 - Table intentionally omitted from AER template*

11.1.7 *Table F.1.4 - Transmission business*

These amounts represents the regulatory accounting values and reconciles to the regulatory accounts that VTS prepare in compliance with section 141 of NGL.

VTS deems these amounts to be actuals.

11.1.7.1 Reconciliation

Refer section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

12 Worksheet F2. Capital expenditure

12.1 Table F.2 Capital expenditure by asset class

All tables in this section starts from Table F2.4. Any previous tables (F2.1-F2.3) have been excluded by the AER from the RIN template.

The pipeline service provider must list in column B in tables F2.4 to F2.7 each asset class listed in the applicable access arrangement's AER final decision PTRM or any updates to the AER final decision PTRM for the relevant regulatory year.

VTS' categories of capital expenditure as defined in the last access arrangement determination, have been used for these RIN reporting requirements.

The capital expenditure definitions are in line with the definitions as in Appendix F and as previously disclosed in section 5.1.7.1.

12.1.1 *Table F2.4.1 Table intentionally omitted by AER from their template*

12.1.2 *Table F2.4.2 – Actual – as-incurred*

In table F2.4.2 for each regulator year, the pipeline service provider must report the 'as-incurred' capital expenditure by asset class. The pipeline service provider must not include the capital expenditure funded by capital contributions (i.e. the capital contributions should not be included in each asset class's capital expenditure) when reporting the net as-incurred capital expenditure by asset class.

The information for 2011–20 has been sourced from net as-incurred capital expenditure reports in Oracle for each regulatory year. For reconciliation to previously reported information to the AER refer to section 3.2.1 in this basis of preparation.

Asset classes are presented in line with the last access arrangement determination.

Tab F2.4.2 ties in with the E.1.1.1 – reference services as both tables requires the 'as incurred' numbers to be reported.

12.1.3 *Table F2.4.3 – Movement in provision allocated to As-incurred capex*

VTS reported no provisions for the regulatory reporting periods that impacts capex. Therefore the requirement is not applicable.

Capital expenditure funded by capital contributions has not been included.

12.1.4 *Table F2.4.4 – Actual – as-commissioned*

The pipeline service provider has reported the net 'as-commissioned' capital expenditure by asset class in table F2.4.4 for each regulator year.

The information for all years has been sourced from the net 'as-commissioned' capital expenditure reports from Oracle.

Some capitalised 'as-commissioned' information has previously been reported to the regulator. Differences were noted in the capital expenditure 'as-commissioned' numbers previously reported.

As the capital expenditure 'as-commissioned' amounts reported in the Roll Forward Model were set to equal the capital expenditure 'as-incurred' amounts, also reported in the same Roll Forward Model, the information previously provided will not reconcile for certain years. Refer section 3.2.1 for further information.

12.1.5 ***Table F2.4.5 – Movement in provision allocated to As-commissioned capex***

VTS reported no provisions for the regulatory reporting periods impacting capex. Therefore the requirement is not applicable.

12.1.6 ***Table F2.5 Capital contribution by asset class***

12.1.7 ***Table F2.5.1. Actual — as-incurred***

VTS has no capital expenditure funded by capital contributions.

No capital contributions were received in any year.

12.1.8 ***Table F2.5.2. Actual — as commissioned***

VTS must report the as-commissioned capital expenditure funded by capital contributions by asset class. VTS has no capital expenditure funded by capital contributions.

12.1.9 ***Table F2.6 – Disposal by asset class***

12.1.10 ***Table F2.6.1 – Table intentionally omitted from AER template***

12.1.11 ***Table F2.6.2 - Actual — as de-commissioned***

This table represents the decommissioned assets based on gross proceeds from sale of assets in line with the requirements in the RIN. The pipeline service provider must report disposals when there has been a sale of an asset. The pipeline service provider have reported the total proceeds received in each year. The proceeds for the years 2017–20 reconcile to the table F10.1.

12.1.12 ***Table F2.7 – Immediate expensing of capex***

While VTS is regulated on a calendar year basis, it lodges tax returns as part of a tax consolidated group on a fiscal year basis. Table F2.7.1 Immediately deductable

expensing of capex reports capex on a fiscal year basis for all years in line with the tax return. This approach has been confirmed in discussion with the AER.

12.1.13 ***Table F2.7.1 – Actual as-commissioned***

The table is reported on an 'as-incurred' basis notwithstanding the table heading in table F2.7.1 indicates reporting on 'as-commissioned'. It is noted that the immediately deductible costs for tax purposes are reported on an 'as-incurred' basis for income tax return purposes in line with the RIN requirement.

The table represents the numbers on a fiscal year basis in line with the RIN requirement requesting the reported numbers to be as per the tax return. Table headings indicates the numbers are to be reported on a calendar year basis, which is not the case.

Compliance Requirement	**VTS Compliance**
Immediately expensing of capex	
Schedule 1 7. IMMEDIATE EXPENSING OF CAPEX FOR TAX PURPOSES 7.1 The pipeline service provider must report the immediate expensing capital expenditure by asset class for the relevant regulatory year. This capital expenditure should be consistent with the value of immediate expensing capital expenditure included in the income tax returns lodged by the pipeline service provider, whether Federal or National Tax Equivalent Regime, for the relevant regulatory year. These reported values may be updated through a Resubmission of Information process (see paragraph 11) to reflect updates to these values arising from the Australian Taxation Office's decision-making process.	VTS is part of APA's tax consolidated Group and the standalone VTS entity does not lodge its own tax return. VTS is not the Head entity of the tax consolidated group. VTS has claimed immediately deductible expenses as part of the APA consolidated tax return in accordance with the 'as-incurred' records for each regulatory year. The reported numbers are on a fiscal year basis rather than calendar year basis despite headings indicating a calendar year basis In 2015, a review was performed to identify immediately deductible capital expenditure incurred in prior periods, which resulted in a catch-up claim in the 2015 income tax return in line with tax advisor's recommendation. In subsequent years, the capital expenditure immediately expensed for tax purposes is claimed in the year the capital expenditure is incurred. No resubmission of any tax information has occurred.

Schedule 1 7. Immediate expensing of capital expenditure 7.2 Please list and explain in the basis of preparation, the types of capex (such as refurbishment capex and capitalised overheads) associated with the immediate expensing capital expenditure as reported in regulatory template F2. Capex table F2.7.	The types of capital expenditure treated as immediate expense capital expenditure and claimed as a deduction in the tax return of the Head entity of the APA tax consolidated group are expenditure related to stress corrosion cracking, pigging, sleeving, coating and systematic pipeline integrity projects and costs incurred as a supporting, indirect activity related to construction of an asset.
2.9 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template F2. Capex instructions: 2.9 (i) In table F2.7 for each regulatory year the pipeline service provider must report the immediate expensing capital expenditure for each asset class. Where there is no forecast or actual immediate expensing capital expenditure for a specific asset class for the relevant regulatory year, the pipeline service provider is to input the value 'zero'.	It is important to note that the pipeline service provider has not forecasted immediate expense capital expenditure for 2011–20 so no comparison can be made to the actual immediate expensing capital expenditure for those years reported in table F2.7. Claims on immediately deductible items do not include claims on any capital contributions. To date APA has not changed the tax policy. APA will review the policy annually and advise the AER of any material changes.
2.9 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template F2. Capex instructions: 2.9 (k) The pipeline service provider must provide in its basis of preparation, the type of capital expenditure (i.e. refurbishment and capitalised overheads) provided to the Australian Tax Office associated with the immediate expensing capital expenditure.	Specifically, for income tax purposes expenditure incurred by VTS that: • Is solely used for the purpose of producing assessable income; • has the character of being a 'repair' and • is not capital in nature; should be immediately deductible under section 25-10 of Income Tax Assessment Act 1997. Repair is restoration by renewal or replacement of subsidiary parts of a whole. Renewal or reconstruction, as distinguished from repair, is restoration of the entirety. The most important factor to

	be considered is whether the work "... restores the efficiency of function of the property without changing its character..." Minor improvements, additions or alterations to property may still constitute repairs. However, substantial improvements, 'initial repairs', modernisations, reconstructions, additions or alterations are not deductible under section 25-10. Pigging, sleeving, coating and systematic pipeline integrity projects undertaken by VTS are considered 'repairs' for tax purposes. Costs incurred as a supporting, indirect activity related to construction of an asset will be immediately deductible.
2.9 Workbook 1 & 2 – Historical and Annual Performance Data, regulatory template F2. Capex instructions: 2.9 (j) The pipeline service provider must explain the main factors driving the difference between the forecast and actual immediate expensing capital expenditure for tax purposes reported in table F2.7.1, if the difference is equal or greater than +/- 10 per cent.	VTS does not forecast any of its immediate expensing of capex. This information has not previously been submitted. Therefore VTS deems this requirement to be not applicable. Based on the AER 2018 tax review, future capital expenditure will follow AER guidelines and reflect diminishing value depreciation for tax purposes for specific asset classes and immediate expensing where appropriate.

12.1.13.1 Sources of information

The reported figures in these tables were sourced from VTS's Oracle system or business records (applicable tax return records) for the regulatory reporting period.

12.1.13.2 Methodology and assumptions

Same methodology used in the regulatory reporting period.

12.1.13.3 Use of estimated information

All tables represent actual amounts.

12.1.13.4 Material accounting policy changes or changes of allocation

No changes in the accounting policy changes other than those mentioned above for 2015 on the catch-up of immediately deductible claim process. Subsequent years have had a consistently applied method of reporting the immediately deductible expenses on a fiscal year basis.

12.1.13.5 Reconciliation

Immediately deductible amounts have not previously been reported to the AER. Capital expenditure for the upcoming access arrangement period will be reported in compliance with the AER requirements. This means that the diminishing value depreciation for tax purposes for asset classes will be followed as well as immediate expensing where appropriate.

13 Worksheet F3. Revenue

In accordance with Australian Accounting Standards, revenue is recognised at an amount that reflects the consideration to which the Service provider expects to be entitled in exchange for the provision of services to a customer (the performance obligations) under a contract. The service provider recognises revenue when control of a product or service is transferred to the customer. Amounts disclosed as revenue are net of profit sharing agreements and Goods and Services Taxes paid. Given the nature of the service provider's services, there is no significant right of return or warranty provided. Transmission revenue is derived from transportation services.

Under the market carriage model, there are two contractual arrangements; the Service Envelope Agreement addresses the requirements under which VTS makes the pipeline system available to AEMO, which operates it to provide services to market participants under the Declared Wholesale Gas Market. AEMO prepares usage information based on gas flow data, and summarises this information into volumetric data, which it provides to VTS. VTS then applies this information to bill market participants in accordance with the second contractual arrangement, the Transmission Payment Deed.

Revenue from contracts with customers may either be identified as separate performance obligations or a series of distinct performance obligations that are substantially the same, have the same pattern of transfer and are, therefore, treated as a single performance obligation that is satisfied over time.

The Revenue within VTS is recorded in the servicing entity.

Different revenue standards were applicable during the regulatory reporting period. As the AEMO billing information reflects gas transmission services that have been provided, VTS has complied with the relevant revenue recognition standards during the regulatory reporting period.

Definition of transmission revenue is in line with the definition in Appendix F.

Consistent with the data provided by AEMO, VTS reports injection revenue (including AMDQcc), withdrawal revenue and Cross System Revenue separately.

13.1.1 *Table F3.1 – Reference Services*

In accordance with the access arrangements, VTS offered two reference services, the Tariffed Transmission Service and the AMDQ CC Reference Service[17]. All revenue relates to these services; VTS offers no non-reference services. VTS identifies the service types

17 The AMDQ CC Reference Service ceased being a reference service as at 31 December 2017. Since then VTS only offers one Reference Service - the Tariffed Transmission Service.

that have been offered on the pipeline during the reporting period: – Injection (including AMDQcc), Withdrawal or Cross System revenue.

13.1.2 *Table F3.2 - Table intentionally omitted by AER from their template*

13.1.3 *Table F3.3 – Rebateable Services*

VTS has no rebateable services due to the market carriage model and no non-reference services are being offered. Hence this table is not applicable.

13.1.4 *Table F3.4 – Table intentionally omitted from AER template*

13.1.5 *Table F3.5 – Total Revenue*

Total revenue is a grey cell sum that automatically summarises revenue from tables F3.1, F.3.3 and F3.7 with formulas. No assurance is given on grey cells. VTS must reconcile the transmission revenue for each respective regulatory year reported in table F1.4.1 with regulatory template F1. Income. The pipeline service provider must provide a reconciliation in the basis of preparation if this does not occur. Row 63 in table F1.4.1 ties to row 69 in table F3.5. No further reconciliation is necessary.

13.1.6 *Table F3.6 – Rewards and penalties from incentive schemes*

VTS must report the revenue earnt or foregone from penalties or rewards of each incentive schemes. The incentive schemes are to be mutually exclusive and collectively exhaustive.

Incentive schemes are those schemes defined in the service provider's access arrangement. Generally, incentive schemes monitor actual performance against forecast, with the impact of the incentive scheme reflected in the following access arrangement.

The 2008–12 access arrangement did not include an Efficiency Benefit Sharing Scheme (EBSS). There are, therefore, no EBSS amounts reflected in the 2013–17 AA period.

The 2013-17 VTS access arrangement did include an EBSS. The AER final decision[18] for the 2018-22 AA included the following amounts for the EBSS relating to the 2013–17 AA period:

18 AER, Final Decision - APA VTS Australia Gas access arrangement 2018 to 2022 Overview, November 2017, p32.

Table 2-10 APA's benefit sharing allowance ($ million, 2017)

	2018	2019	2020	2021	2022	Total
Benefit sharing allowance	6.9	4.5	3.6	2.1	–	17.1

Source: APA VTS - IR17 - Response to AER - 20171013 - Public; AER analysis.
Note: Numbers may not add up due to rounding.

An EBSS was also included in the 2018–22 access arrangement. Amounts may be reported under this category over the course of the 2023–27 access arrangement period. There are therefore no EBSS amounts reflected in the 2013–17 AA period.

13.1.7 ***Table F3.7 – Other Services provided as a covered pipeline***

The VTS provides only one type of service to customers during the period.

13.1.7.1 **Revenue allocation to service types – VTS**

Revenue has been mapped to VTS Tariffed transmission Service revenue for the reporting period. In the General Ledger (GL), VTS identifies the service types that have been offered on the pipeline during the reporting period: – Injection (including AMDQcc), Withdrawal or Cross System revenue.

Where a GL account type is directly aligned with a VTS service type, the historical and annual allocation of revenue to that GL account type has been relied upon.

There are no other types of revenue on VTS.

13.1.8 ***Sources of information***

The reported figures in these tables were sourced from VTS's Oracle system or AEMO volumetric data as well as business records for the regulatory reporting period.

All amounts are deemed actuals.

13.1.9 ***Methodology and assumptions***

Consistent application of methodology during the regulatory years.

13.1.10 ***Use of estimated information***

None.

13.1.11 *Material accounting policy changes or changes of allocation*

Adoption of AASB 15 is the only change in the period however, this did not have a material impact on VTS financial information.

13.1.12 *Reconciliation*

VTS has reported actual revenue in prior RINs and the information reconciles. Refer to section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

14 Worksheet F4. Operating Expenditure

14.1.1.1 Definition and source of information

All definitions are in line with the definitions in Appendix F to the RIN.

The amounts reported by the service provider is this worksheet were sourced from the service provider's regulatory accounts, where the data used to prepare these accounts was sourced from the Oracle financial reporting system and business records.

14.1.2 *Table F4.1- Operating expenditure by purpose*

This table represents the total operating expenditure for the service provider split by various categories: Repairs and Maintenance, Other operating, Debt raising, and Equity raising.

For the Annual RIN reporting template for regulatory year 2020 there are further disaggregation requirements of operating expenditure. The annual RIN has eight operating expenditure categories (labour expenditure, insurance expenditure, licence and regulatory expenditure and leasing and rental expenditure plus the repair and maintenance expenditure, other operating expenditure, debt raising cost and equity raising cost). The latter four categories are the same as in the Historical RIN reporting template.

For reference to the various categorisation, refer section 4.2 Table E1.2 Operating Expenditure in the Basis of preparation. For debt and equity raising costs please see section 4.2.1 Table E.1.2.1 - Reference services in this Basis of preparation.

14.1.3 *Table F4.1.1 - Audited statutory accounts*

In table F4.1.1 the pipeline service provider must report the audited statutory accounts operating expenditure for the regulatory year.

Although the service provider was not required to prepare audited statutory trial balances for the years 2013–19, audit assurance was provided on the pipeline service provider operating expenditure disclosed in the table F4 for each regulatory year 2013–20.

The trial balance represents the financial information for the legal entity VTS: which is the total service provider. This trial balance is made up of several reporting business segments that are not related to the regulated asset or within the scope of the RIN.

This table represents the total operating expenditure for the service provider split by the various categories as mentioned above; These amounts are deemed actual and were retrieved from Oracle. Debt raising and equity raising costs were calculated applying the AER's approved approach and are therefore presented as actual.

14.1.4 *Table F4.1.2 – Adjustments*

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

For each adjustment made to the operating expenditure in the statutory trial balance and reported in F4.1.2 the pipeline service provider must in the basis of preparation:

i) specify the amount of the adjustment; and

ii) describe the nature and basis of each adjustment.

Operating expenditure adjustments in table F 4.1.2 are:

1. expenditure incurred from activities independent from the provision of services provided by the covered pipeline, i.e. recoverable works activities;
2. expenditures treated differently for statutory purposes and those under the access arrangement, i.e. access arrangement costs and pigging costs recorded as capital at the statutory trial balance but required to be recorded as an operating expense for the purpose of the service provider's access arrangement; and

   (It is important to note that treatment of pigging costs varied between Access Arrangements periods, prior to 1 July 2013 pigging costs were treated as operating expenditure whereas post 1 July 2013 pigging costs were required to be treated as capitalised expenditure. For the years being reported on in the Historic and Annual RIN reporting templates, pigging costs are recorded as capital at the statutory trial balance); and
3. expenditure not recorded at the statutory level but is required to be recorded as an operating expense for the purpose of the service provider's access arrangement

   a. shared corporate expenditure. Adjustments in the period 2015 until 2020 representing the allocation of shared corporate costs which is no longer recorded directly in the statutory trial balances (see section 5.1.2);

   b. debt raising costs for regulatory purposes. Debt raising cost is based on the approved approach applied by the AER in its final determination for the relevant access arrangement period (refer to section 4.2.1.4).

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

14.1.5 *Table F4.1.3 – Transmission business*

The RIN requires VTS to report financial transactions starting from audited statutory trial balance less adjustment to derive the transmission business operating expenditure for the service provider.

This table represents the total Operating expenditure for the covered pipeline split by various categories: Repairs and Maintenance; Other operating; Debt raising; and equity raising expenditure, including adjustments. The totals reconciles to the regulatory accounts.

For the Annual RIN reporting template for regulatory year 2020 there are further disaggregation requirement of operating expenditure. The annual RIN has eight operating expenditure categories (labour expenditure, insurance expenditure, licence and regulatory expenditure and leasing and rental expenditure plus the repair and maintenance expenditure, other operating expenditure, debt raising cost and equity raising cost). The latter four categories are the same as in the Historical RIN reporting template.

The reported amounts in Table F4.1.3 are deemed actuals and were based on calculations from business records or retrieved from Oracle.

Table F4.1.3 Transmission business operating expenditure ties to table E1.2.1 Reference services and E1.2.5 - All Opex. The debt raising cost after adjustments in table F4.1.3 reconciles to the table E1.2.1 and E1.2.5.

In table F4.1.3 for each regulatory year, the pipeline service provider must report the total operating expenditure for each operating expenditure category.

The operating expenditure reported for each operating expenditure category must be inclusive of any attributable (non-capitalised) corporate and network overhead operating expenditure. Consistent with the application of definitions agreed with the AER, directly attributable costs excludes any overheads, unless the expenditure relates to corporate overheads or network overheads. For further information see section 4.2.1.

14.1.6 *Methodology and assumptions*

VTS has applied a consistent statutory accounting methodology for the regulatory years. Noting that some specific expenditure is treated differently for regulatory reporting yet consistent and in accordance with the various access arrangements.

14.1.7 *Use of estimated information*

None

14.1.8 *Material accounting policy changes or changes of allocation*

None

14.1.9 *Reconciliation*

Differences were noted in the operating expenditure compared to previously reported actual numbers. Refer section 3.2.1 in this basis of preparation for reconciliation to previously reported actual information.

15 Worksheet F6. Related party transactions

VTS has used the definition of 'related party' as being consistent with that in the Australian Corporations Law and definition in Appendix F.

APA Group applies an internal operations model to its portfolio of businesses. That is, APA Group personnel operate APA Group assets, including the VTS. Whilst APA Group uses specialist contractors for defined tasks, APA Group does not contract the general operation of its assets to external or related party entities. This internal operation model allows APA Group to share costs among the operating businesses and achieve synergies which results in lower costs to customers.

Many of these shared functions, such as procurement and capital raising, are performed centrally through a corporate entity. Virtually all other functions, including specialist engineering functions, are conducted through specialist teams, which work across a number of assets in the APA Group portfolio. The costs associated with these functions are allocated among the relevant APA Group operating businesses, including APA VTS Australia (Operations) Pty Limited, the VTS service provider. No margins, management fees or incentive payments are applied to costs allocated within the group.

Notwithstanding the internal operations model, VTS remains an employing entity for segments of the workforce and will report directly attributable costs in VTS for these employees. The remaining part is employed by another APA entity and salaries and wages incurred are attributed and allocated to VTS.

Through discussions with the AER to clarify the requirements of the RIN, VTS has agreed with the AER that costs incurred by APA Group entities and allocated to APA VTS Australia (Operations) Pty Limited will not be considered to be related party transactions. Therefore, no transactions are reported in table F.6.1.1 of the Annual Performance Data Regulatory template.

16 Worksheet F7. Provisions

In accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets a provision is a liability of uncertain timing or amount. VTS has several employee related provisions and one 'Other' provision in its statutory trial balance.

As mentioned above, VTS has been the employing entity for segments of the workforce. Therefore VTS has the contractual obligations to recognise the relevant employee provisions relating to those employees. The remaining part of employees working on the VTS are employed by another entity and in those instances the employment related provisions are recorded in a related entity. Employee related provisions in the RIN are presented on a net basis.

17 Worksheet F9. Pass throughs

The RIN Notice requires:

> 2.14 *Workbook 1 & 2 – Historical and Annual Performance Data*, *regulatory template* F9. Pass throughs instructions:
>
> (a) The *pipeline service provider* must report the expenditure incurred in relation to *AER* approved pass through events, or pass through events which the *pipeline service provider* will propose for *AER* approval. The pass through events that the *pipeline service provider* will propose to the *AER*, must be expressly noted as being "proposed for *AER* approval".

The 2013–17 and 2018–22 access arrangements include pass through provisions to accommodate unforeseen circumstances (positive or negative) in the access arrangement period. Generally, the pass through provisions are subject to a materiality threshold such that small variations do not qualify for pass through treatment. VTS has never had to use them in the reporting period.

There were no pass throughs in any years.

18 Worksheet F10. Assets

18.1.1 *Compliance with requirements*

The VTS RIN instructions for Schedule F10 require:

Compliance Requirement	VTS Compliance
2.15 *Workbook 1& 2 – Historical and Annual Performance Data*, *regulatory template* F10. Assets (Capital Base) instructions:	
(a) The *pipeline service provider* must reconcile the information included in table F10.1 (*capital base* values as-incurred) to:	
(i) any decision that the *AER* has made in relation to *capital base* values unless that decision incorporates forecasts (for example, additions for the last year of the previous *access arrangement period*) in which case those forecast values should be replaced with actual values where possible. Actual values must be reconciled to amounts reported for *as-incurred capital expenditure* in *regulatory template* F2. Capex; and	Tables F10.1 and F10.2 are "greyed out" for the 2011 through 2016 regulatory years, in recognition that the AER has approved the relevant capital base roll forward amounts for those years in its last access arrangement determination. The 2017–20 years are discussed under 'Reconciliation' below.
(ii) for years where the *AER* has not made a decision on values for the *capital base*, *capital base* values must be prepared in accordance with the instructions provided by this *notice*. In this circumstance actual additions (recognised in the *capital base*) and *disposals* must reconcile to amounts reported for *as-incurred capital expenditure* in *regulatory template* F2. Capex.	Save for the 2016-17 regulatory year, discussed under 'Reconciliation' below, capex in Schedule F10.1 agrees to that reported in Schedule F2.4.2.
(b) The *pipeline service provider* must reconcile the information included in table F10.2 (*capital base* values as-commissioned) to: (i) any decision that the *AER* has made in relation to *capital base* values unless that decision incorporates forecasts (for example, additions for the last year of the previous *access arrangement period*) in which case those forecast values should be replaced with actual values where possible. Actual values must be reconciled to amounts	Tables F10.1 and F10.2 are 'greyed out' for the 2011 through 2017 regulatory years, in recognition that the AER has approved the relevant capital base roll forward amounts for those years in its last access arrangement determination.

reported for *as-commissioned capital expenditure* in *regulatory template* F2. Capex.	
(ii) for years where the *AER* has not made a decision on values for the *capital base*, *capital base* values must be prepared in accordance with the instructions provided by this *notice*. In this circumstance actual additions (recognised in the *capital base*) and *disposals* must reconcile to amounts reported for *as-commissioned capital expenditure* in *regulatory template* F2. Capex.	Save for the 2017 regulatory year, discussed under 'Reconciliation' below, capex in Schedule F10.2 agrees to that reported in Schedule F.2.4.4.

18.1.2 ***Sources of information***

The 2017 opening value of the regulatory capital base is drawn directly from the AER-approved roll forward model issued with its 2017 final determination. The opening value for subsequent years is derived through the application of indexation, depreciation, additions, a WACC adjustment on additions, and disposals, as discussed below.

The AER's Asset Base Roll Forward Model indexes the opening value of the regulatory capital base for inflation. The capital base is indexed by the December-on-December movement in CPI (weighted average of eight capital cites) as published by the Australian Bureau of Statistics. The roll forward model indexation is separately identified in rows 13 and 27 as appropriate.

Straight line depreciation is drawn from the AER's approved Post Tax Revenue Model issued with its November 2017 final determination revenue model. Consistent with the AER's 2017 final determination, the regulatory capital base is rolled forward using forecast depreciation reflecting the forecast capital expenditure, rather than depreciation reflecting actual capital expenditure. Straight line depreciation reported is in nominal dollars. This is reflected in rows 14 and 28.

Consistent with the RIN instructions, actual additions corresponds with the actual capital expenditure amounts shown in Schedule F2.4.2 and F2.4.4, with the exception of the 2017 year, as discussed in section 18.1.6.

The AER's Asset Base Roll Forward Model, recognising that capital expenditure takes place over the course of the year, assumes for modelling purposes that all capital expenditure is undertaken at the midpoint of the year. The roll forward model therefore allows for a half-year of financing costs to be added to current year capex in determining the regulatory capex values. This is drawn from the AER roll forward model and reported as 'WACC adjustment' on lines 16 and 30 as appropriate.

Disposals are reported in both the roll forward model and Tab F10 at the proceeds of disposal, reflecting the amount of invested capital that has been returned to VTS through the disposal.

18.1.3 *Methodology and assumptions*

The title to Schedule F10.2 – Capital Base values – 'As Commissioned' clearly indicates that it is intended to roll forward the regulatory capital base for capex 'as commissioned'. While it is not clear from the RIN or the templates, VTS has presumed from the schedule titles that Schedule F10.1 is intended to report the roll forward of the regulatory capital base 'as-incurred'. VTS has reported capital expenditure in the roll forward model on an 'as-incurred' basis. The capital expenditure in Schedule F10.1 reconciles to that reported in Schedule F2.4.2 (Capex by asset class - Actual – as-incurred), whereas the capex in Schedule F10.2 reconciles to that in Schedule F2.4.4 (Capex by asset class - Actual – as-commissioned). See below for a discussion of 2017 capex.

18.1.4 *Use of estimated information*

All information used in the preparation of Schedules F10.1 and F10.2, other than the reported additions in 2017 are actuals drawn from VTSs trial balance (e.g. actual additions, proceeds of disposal), or calculated in the AER roll forward model using the AER's calculation methodology and actual inputs (e.g. ABS-published CPI).

In order to agree the regulatory reporting template to the roll forward model, the 2017 capital expenditure reported in Schedules F10.1 and F10.2 must agree to the approved AER 2018 access arrangement determination. The capital expenditure in that determination reflected a forecast capital expenditure for the 2017 calendar year.

In schedules F10.1 and F10.2, VTS considers the reported additions in 2017 to be estimates with all other information reported as actuals.

18.1.5 *Material accounting policy changes or changes of allocation*

None

18.1.6 *Reconciliation*

This RIN requires actual additions in Schedules F10.1 and F10.2 to be reconciled to actual capex in Table F2.

Schedules F10.1 and F10.2 calculate regulatory asset value and agree to the roll forward model.