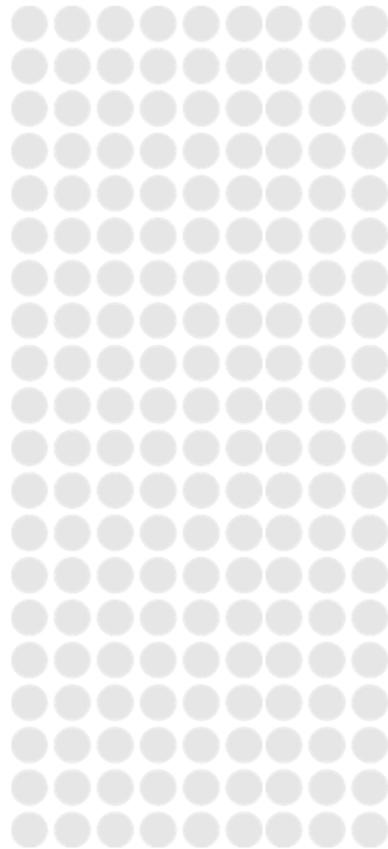




October 2020

financial reporting guideline for light regulation pipeline services

basis of preparation



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1 introduction

In October 2019 the Australian Energy Regulator (AER) and Western Australia Economic Regulation Authority (ERA) issued the Financial Reporting Guideline for light regulation for pipeline services (Guidelines) in accordance with rule 36F of the National Gas Rules (NGR). The AER and ERA Guidelines are, in all material respects, aligned.

Under rule 36B (1)(c) and (d) of the NGR, service providers for light regulation services are required to publish specific information, including financial information and weighted average price information. Financial and weighted average price information is intended to assist prospective users in assessing whether prices being offered by the service provider are reasonable.

Chapter 9 of both the AER and ERA Guidelines require the reporting entity to prepare a separate basis of preparation document. This Basis of Preparation should be read in conjunction with those Guidelines and the Financial Reporting Guideline for Light Regulation Services Explanatory Statement.

The Guidelines requires reporting in the following distinct categories:

1. Statement of pipeline revenue and expenses;
2. Statement of Pipeline assets – applying a Regulatory Asset Base (RAB) roll forward approach;
3. where required, a Recovered Capital Method (RCM) approach; and
4. Weighted average price information.

The Guidelines states that service providers are required to comply with the Australian Accounting Standards (AAS) except where the Guidelines provides a methodology that is not consistent with the AAS.

The AER and ERA Light Regulation Guidelines create a new Special Purpose Financial Reporting Framework, which differs in significant ways from the statutory reporting framework defined by Australian Accounting Standards. It is important to note that the information produced under the Guidelines will not reconcile to the majority of financial information prepared by the Service Provider under AAS.

This Basis of Preparation document applies to the following pipelines subject to light regulation and Service Providers:

Pipeline	Service provider
Carpentaria Gas Pipeline (CGP)	APT Pipelines (QLD) Pty Limited

Pipeline	Service provider
Central West Pipeline (CWP)	APT Pipelines (NSW) Pty Limited
Kalgoorlie Kambalda Pipeline (KKP)	Southern Cross Pipelines Australia Pty Limited
Moomba Sydney Pipeline (MSP)	East Australian Pipeline Pty Limited

1.1 pipeline-specific information

1.1.1 *Carpentaria Gas Pipeline*

Carpentaria Gas Pipeline consists of the mainline from Ballera to Mt Isa, the Mt Isa Mine Lateral and the Mica Creek Metering facility.

The Cannington Lateral is not covered by the light regulation provisions as it is a non-scheme pipeline and is subject to Part 23 of the Rules.

The Carpentaria Gas Pipeline is owned by two APA companies (APT Pipelines (QLD) Pty Limited and Roverton Pty Ltd). The reporting Service Provider nominated by the joint service providers in accordance with section 1.6 of the Guideline is APT Pipelines (QLD) Pty Limited.

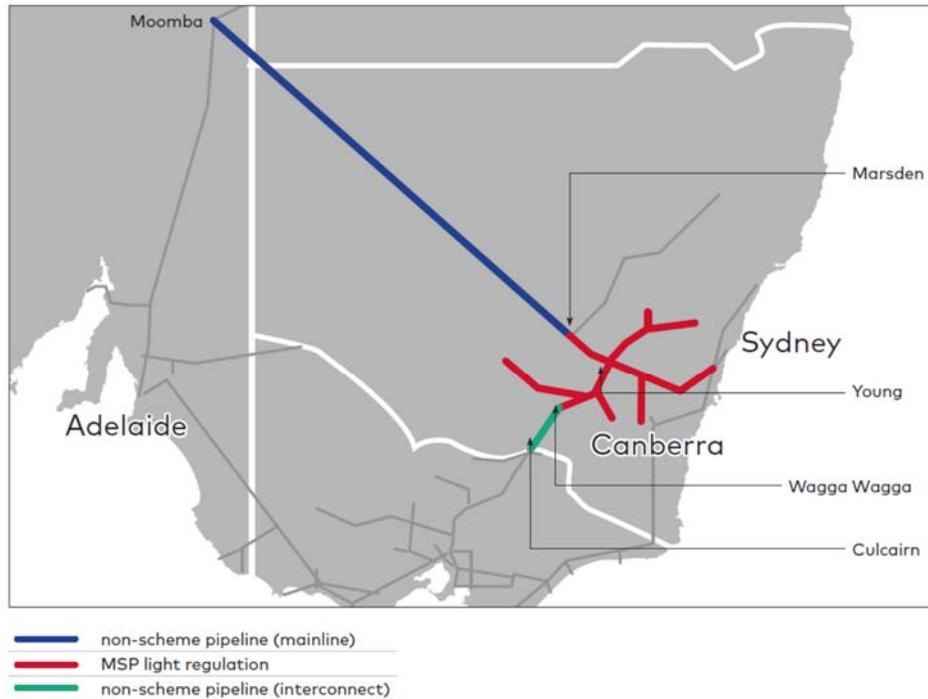
1.1.2 *Moomba Sydney Pipeline*

This Basis of Preparation and the accompanying templates report the Moomba Sydney Pipeline (MSP) as a single integrated pipeline system.

From a regulatory perspective, the MSP is made up of three sections:

- a non-scheme pipeline from Moomba to Marsden (marked blue on the MSP map below);
- a light regulation scheme pipeline system from Marsden to Sydney, with laterals serving Canberra, Wagga Wagga, Griffith and Lithgow (marked red on the MSP map below);
- a non-scheme pipeline "interconnect" pipeline between Wagga Wagga and Culcairn (marked green on the MSP map below).

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For the purposes of the AER’s Financial Reporting Guideline for non-Scheme Pipelines, APA proposed, and the AER accepted, to report the MSP as though it was a fully non-scheme pipeline. Under the non-Scheme Guideline, APA reported pipeline financial information based on accounting standard valuations, and reported a Recovered Capital Method valuation.

For the purposes of the AER’s Financial Reporting Guideline for Light Regulation Pipelines, based on discussions with the AER, APA would report the MSP as if it were fully subject to light regulation. As an Initial Capital Base has been determined for the MSP (excluding the interconnect), APA proposes to report a regulatory capital base value for the MSP in the Statement of Pipeline Assets schedule in the Light Regulation Guideline template. For the purposes of this valuation, the interconnect will be reported at its original construction cost and rolled forward using regulatory procedures from the date of construction.

The AER has provided a No Action letter confirming this approach under the light regulation framework.

Included in the RAB value is a part of the payment associated with the pipeline management agreement buyout as approved by the AER as conforming capital expenditure in the 2012 Roma Brisbane Pipeline access arrangement (refer to Appendix C of the AER Final Determination).

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1.2 rounding

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

1.3 requirement to publish financial information.

The financial reporting under light regulation is an annual reporting requirement for APA's light regulation pipelines due 31 October 2020. As the deadline falls on a weekend the information was published the next business day - Monday 2nd November 2020. There is no requirement for prior financial year information to be included in the statement of pipeline revenue and expenses until the year following the first full year for which information will be reported – ie. Comparatives for revenue and expenses will be reported in FY 21, in line with Guideline requirement (p 8).

1.4 assurance requirement

Based on discussions with the ERA and AER, the following assurance requirements are expected in the following Worksheet:

Worksheet	Worksheet name	Assurance:
Worksheet 1	Pipeline Information	No assurance
Worksheet 1.1	Financial Summary	No assurance
Worksheet 2	Revenues and Expenses	Audit
Worksheet 2.1	Revenue by Service	No assurance
Worksheet 2.2	Revenue contributions	No assurance
Worksheet 2.3	Indirect revenue	No assurance
Worksheet 2.4	Shared costs	No assurance
Worksheet 3	Statement of pipeline assets	Audit
Worksheet 3.1	Pipeline asset useful life	No assurance
Worksheet 3.2	Shared supporting assets	No assurance
Worksheet 4	Recovered capital	Review
Worksheet 4.1	Pipelines Capex	No assurance
Worksheet 5	WAP	Review
Worksheet 5.1	Exempt WAP Services	No assurance
Worksheet 6	Notes	Audit

Certain worksheets subject to an assurance requirement listed above present information older than seven years is presented in the template but is not subject to audit or review if the evidence could not be obtained as APA follow the Australian statutory requirement to retain information for seven years. Further information regarding the assurance obtained please refer to the independent auditors report.

APA will maintain records as follows:

- All base financial records will be extracted from APA's financial systems;

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- 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 seven years from the date of the respective submission;
- All records will be available to independent auditors, the AER and ERA.

1.5 requirement to report an RCM value

In accordance with the Guideline, where a RAB value has not been established through an access arrangement, service providers are required to determine a pipeline asset value based on a recovered capital method (RCM value) and disclose their calculation of this value in worksheet 4 of the financial reporting template.

For Carpentaria and KKP who has not had a regulatory asset determination whereby a Regulated Asset Base was approved, the Recovered Capital Method is utilised for reporting purposes. For MSP and CWP, the opening regulated asset base reflects historical regulatory determinations.

2 financial summary

The financial performance summary highlights the historical achieved revenues and the revenues under a building block and recovered capital method approach (if applicable).

Under the two approaches – building block revenue and recovered capital method approaches, the opening asset bases will differ and impact the return on capital and the return of capital in worksheet 1.1 where applicable.

The opening asset values reported are prepared from the first year since the RAB was last established or the first year end of the construction date at the relevant reporting year.

2.1 nominal WACC

WACC is used in 3 areas:

- In Table 1.1.1 Financial Summary, to determine the theoretical regulatory building block revenue requirement;
- As the half-year capitalised return allowance in the Roll Forward Model to reflect a return on capex undertaken in the reporting year; and
- To calculate the “Return on Capital” component of the RCM calculation.

A separate WACC must be calculated for each reporting year, according to the WACC hierarchy specified in Box 6.1 of the Guideline.

In summary, the WACC hierarchy provides for the applied WACC to be calculated in the following order of priority:

1. Where the light regulation asset was under full regulation in part of a given year for which an estimated WACC is required, the WACC from the pipeline’s ACCC/AER final decision applicable to that given year is adopted.
2. Where there was an ACCC or AER WACC instrument, guideline, or statement of regulatory intent (“WACC Instrument”) in place that would have been applied at the time this WACC Instrument is adopted, to the extent possible, as it would have been applied at the time.
3. The estimated WACC taken from the most recent previous ACCC/AER final decision that covers the same year and the same type of gas asset (i.e. transmission or distribution).
4. The estimated WACC taken from the most recent previous ACCC/AER final decision that covers the same year and different type of gas asset.

5. The estimated WACC based on the first available ACCC/AER final gas transmission or distribution decision from a later year.

In all cases, any WACC calculated is to reflect an “on the day” cost of debt rather than any elements of a rolling average cost of debt that may be reflected in the relevant determination.

Moreover, the calculations of cost of equity and cost of debt are to be updated to reflect the last 20 business days’ financial market data for any relevant market parameters applied (e.g. the risk free rate, Bloomberg BVAL curve, etc.)

For information on how the WACC hierarchy is applied, please refer to appendix 1.

3 pipeline financial information

3.1 sources of information

APA's Enterprise Resource Planning ("ERP") system, Oracle 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. 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 AAS 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.

Other financial information is sourced from Roll Forward Material. Roll Forward Material is defined in the AER's Guideline as, "a suite of guidance materials, published by the AER from time to time, setting out how a service provider is to roll forward the asset base of a covered gas pipeline, such as guidelines, final decisions, handbooks and models."

Financial information extracted from the APA Oracle financial system and Roll Forward Material underpins the reported *Statement of Pipeline Revenue and Expenses* and *Statement of Pipeline Assets* for the following categories:

- **Revenue:** The APA Oracle financial system's revenue recognition complies with the revenue recognition principles prepared in accordance with the requirements of Australian Accounting Standards.
- **Operating direct costs:** APA's statutory operating cost categories are in line with the categories identified in the section 3.1.1.2 of the Guideline. Asset depreciation is adopts the regulatory depreciation calculated in the Roll Forward Model used to establish the Regulated Asset Base (refer section 3.4.2.1 in this Basis of preparation).
- **Assets:** Fixed asset opening cost base are driven by the regulatory determination. Annual capital expenditure additions are consistent with statutory financial reporting requirements.

APA has for these reporting purposes allocated a fair proportion of corporate expenditure to each asset in APA's portfolio based on a revenue allocation method. Refer to Section 3.3.2.2 of this basis of preparation for further details.

3.2 general methodology and principles

Methodologies used for the preparation of the *Statement of Pipeline Revenue and Expenses* and *Statement of Pipeline Assets* are broadly consistent with the methods used in the preparation of APA's statutory financial accounts except for revenue categorisation, operating and shared corporate expenditure, shared support assets and depreciation expense.

Financial information for each pipeline subject to light regulation services has been derived from the relevant Service Provider's Trial Balance which forms part of APA's *Consolidated Statutory Financial Statements*, where appropriate. The *Statement of Pipeline Assets* includes all pipeline assets connected with the asset base of light regulation pipeline which consistent with the Guideline.

There are instances where the reporting of light regulation pipelines does not align with legal entity reporting due to Guideline requirements. The financial information provided is then supported by APA's management reporting, regulatory accounts or determinations. The information in these instances has been further verified through underlying regulatory determinations, customer contracts, customer correspondence, third party operating agreements, direct costs and detailed reviews of invoices and asset registers as relevant.

The *Statement of Pipeline Revenue and Expenses* and *Statement of Pipeline Assets* for each pipeline subject to light regulation framework has been audited by APA's external auditor, Deloitte Touche Tohmatsu, in accordance with the Australian Auditing Standards. The RCM and the WAP has been reviewed by Deloitte and were subject to limited assurance.

3.3 statement of pipeline revenue and expenses

Revenue is reported in worksheet 2 and 2.1 of the financial reporting template and is reported by service category as set out in the financial reporting template. The service provider is compliant with revenue recognition principles consistent with the Australian Accounting Standards.

3.3.1 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 duties and taxes paid. Given the nature of the service provider's services there is no significant right of return or warranty provided. Direct revenue is derived from transportation services.

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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. This includes both firm and interruptible services. The amount billed corresponds directly to the value of the performance to date.

Revenue is directly attributed to the pipeline that earns the revenue based on the underlying contract and has been allocated to revenue categories in accordance with the Guideline as direct revenue. Revenue has been mapped to each non-scheme asset transport services for the reporting period through identification of the transport service types that have been offered on the pipeline during the reporting period. Transport service types have been aligned with the service types that are reported in financial reporting for other regulatory reporting.

Where a General Ledger ("GL") account type is directly aligned with a service type, the allocation of revenue to that GL account type has been relied upon. Where possible, APA has reported the transport service type in line with the reporting template.

In those instances where a type of service does not align with a template category, it has been presented as "other direct revenue" in Table 2.1.1 of the reporting template.

Any revenue that is generated under agreements that do not separate the revenue by pipeline has been allocated to each pipeline using an appropriate methodology or allocator. Further information on the revenue allocation on the Multi Asset Services is found in section 3.3.1.2 below.

The revenue within APA is recorded in the service provider.

Revenue associated with behavioural charges, such as Unauthorised Overrun and Imbalance, have been allocated to an 'Other Direct revenue' line item, in accordance with treatment for other regulatory reporting.

Customer contribution revenue represents deferred revenue and is applicable in some instances. Any revenue that is generated under agreements that do not separate the revenue by pipeline has been allocated to each pipeline using an appropriate methodology or allocator. This revenue is classified as firm transportation revenue and not a transaction with a related party as no margins are charged. Further information on the revenue allocation on the Multi Asset Services is found in section 3.3.1.2 below.



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3.3.1.1 related party transactions

In particular instances, the service provider provides services to customers who are related parties, defined under the Guideline in a manner consistent with the Corporations Act 2001. Transactions with related parties are based on arm’s length commercial terms consistent with competitive parity rule in NGL s148(2). However APA does not report as related party transactions those contracts involving revenues allocated among service providers under multi-asset service contracts, as per letter to the AER dated 31 January 2019.

$$\text{Related Party Revenue \% of total revenue} = \frac{\text{\$ Total related party Revenue}}{\text{\$ Total revenue for the Asset}}$$

Operating expenses for these related parties revenue are calculated based on the same proportion as related party revenue.

$$\text{Related Party Opex \$} = \frac{\text{Related party Revenue \% of total revenue}}{\text{\$ Total opex}}$$

Related party revenue is reported in the column Related party revenue in table 2.1 & 2.1.1. if applicable.

APA does not consider shared corporate expenditure within the APA Group to represent a related party transaction under the Guideline. Consequently, shared corporate expenditure is not reported as a related party transaction in the Statement of Pipeline Revenue and Expenses.

Related party revenue for CGP is revenue for the DPS connection agreement.

3.3.1.2 revenue from Multi Asset Services and allocation methodology

Where APA provides a service across a number of pipelines under a single contract (“Multi Asset Services”) it is necessary to allocate the revenue from that service across the various pipelines providing that service.

In developing its Multi Asset Service allocation methodology, APA identified factors relevant to the setting of its prices on individual pipelines (such as light regulation¹), and applied them to the revenue allocations. This is because the allocations contribute to the calculation of a weighted average price that is intended to assist potential customers to understand what other customers are paying on a pipeline-by-pipeline basis, and thereby inform their view of APA’s pricing offer.

It is therefore appropriate that factors that influence prices on individual pipelines or pipeline segments are also reflected in the revenue allocation used to derive the

¹ Section 136 of the National Gas Law specifies that a covered pipeline service provider must not engage in price discrimination when providing light regulation services, unless to do so is conducive to efficient service provision.

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weighted average price for each pipeline or pipeline segment that provide the Multi Asset Service. For example, the amount of Multi Asset Service revenue allocated to a particular pipeline segment must recognise that the amount allocated to any light regulated pipeline on the Multi Asset Service route must reflect the “no price discrimination” requirement of s136 of the National Gas Law.

Consequently, the allocator that is applied for each revenue item will vary, depending on the specific nature of the Multi Asset Service and pipelines involved.

APA considers that this is the most appropriate method of allocation, as it reflects the regulatory and contractual restrictions on prices (and therefore revenue) that may be earned on individual pipeline segments. This method ensures that, where regulatory and/or contractual limitations apply to stand-alone pipeline or pipeline segments, the revenue allocated to those pipeline segments is consistent with those limitations.

The portion of revenue attributed to the service provider is reported as direct revenue in Table 2.1 of the reporting template.

3.3.1.3 revenue Carpentaria Gas Pipeline

APA procures compression services from the Santos-owned Ballera compressor station to allow users’ gas to enter the CGP. Reported revenue includes the revenue from the compressor services, and reported operating expenditure includes the cost of acquiring the compressor services. However, compression is not reported in the Weighted Average Price tab, as the compression services are not provided by means of the Covered pipeline.

3.3.2 costs

All costs (operating and capital) are captured in the APA’s financial reporting system 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 & maintenance activities and services.

APA has attributed costs directly to 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.

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

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

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When assessing APA's operating and capital costs, the majority of APA's costs fall within two categories:

- **directly attributable costs** to the pipeline service provider: Expenses that are clearly associated with a specific pipeline 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 light regulation pipelines and the employees who are solely dedicated in providing field services to the light regulation pipeline.

- **other directly attributable costs:** Other directly attributable expenses are costs directly attributable to the assets and are incurred by APA's Transmission² business. 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 to which 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 pipelines throughout Australia.

For other directly attributable costs, APA has utilised the following cost allocation methodologies:

- time/effort based - national transmission pipeline services such as the IOC costs are assigned to each light regulation 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 and Environment are provided by state based employees. The state based costs are allocated to the pipelines within that state using the aforementioned cost allocators stated.

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

Other expenditure subject to allocation and recharges are shared corporate expenditure which is allocated based on the service provider's two step revenue approach. Further information is provided in section 3.3.2.2.

Interest expense from directly attributable leased assets has been included in the line item "Directly attributable finance charges" for the inclusion of interest expense related to AASB 16. For further information of the impact of AASB 16 please refer to section 3.4.6. in this basis of preparation.

Operating costs includes an allowance for debt raising costs, calculated by multiplying the opening value of the regulatory asset base by and AER-approved debt raising cost percentage drawn from a relevant regulatory determination.

3.3.2.1 depreciation expense

Depreciation expense is determined in accordance with the regulatory depreciation methodology as set out in the Roll Forward Material as required in the Guideline. Roll Forward Material is defined in the AER's Guideline as, "a suite of guidance materials, published by the AER from time to time, setting out how a service provider is to roll forward the asset base of a covered gas pipeline, such as guidelines, final decisions, handbooks and models."

In April 2020 the AER published a new Roll Forward Model for Gas Transmission Service Providers. The Gas Transmission Service Providers of the APA light regulated pipelines have utilised this Model to calculate depreciation expense.

For further information on the Roll Forward Model used to calculate depreciation expense, please refer to the AER's document called "Gas transmission and distribution network service providers, Roll forward model (version 1) released in April 2020, available from www.aer.gov.au.

3.3.2.2 shared corporate expenditure

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 light regulation pipelines or business segments in its financial reporting systems.

APA has utilised the revenue based allocation method for its allocation of shared corporate expenditure as approved by the AER in the APA VTS Access Arrangement 2018-2022.

APA has for these 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 which are 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 attributable 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, corporate service recharge costs to the management of APA's investments etc.).

APA owns but does not operate the Wallumbilla Gladstone Pipeline (WGP). Recognising this, APA has only allocated treasury and accounting related expenditure and other related costs of these services to the WGP.

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 the purposes of 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 accounts.

Interest expense from shared leased assets has been included in the line item "Other shared cost". For further information of the impact of AASB 16 please refer to section 2.4.6.

Shared leased asset depreciation is driven by the RFM and is included in the "shared assets depreciation" line item in table 2.4.1.

The APA corporate costs attributable to the service provider are reported in Table 2.4.1 of the reporting template.

3.3.2.3 debt raising costs

Debt raising costs as presented in the Statement of Pipeline Revenue and Expenses has been calculated by applying the debt raising cost rate to the average Regulated Asset Base for the year to the permitted proportion of 60% for debt funding. The relevant debt raising cost rate and the proportion of 60% for debt funding as approved by the Australian Energy Regulator in the relevant contemporaneous Final Decision. The appropriate debt raising cost rate has been drawn from those decisions referenced for WACC purposes as discussed in appendix 1. Debt raising will be included as part of the operating expenditure reported for light regulated purposes as the concept forms part of the revenue "building block".

The cost is recorded as part of the table "2.4.1 Shared costs" which flows into table 2.1.

3.4 **statement of pipeline assets**

Service providers are required to provide a statement of pipeline assets for the pipeline at worksheet 3 of the financial reporting template. The statement of pipeline assets provides an overview of the assets utilised in the pipeline operations.

The Depreciation and Regulatory Asset Base calculations in worksheet 3 of the financial reporting template are based on the roll forward model.

The light regulation reporting has complied with the AASB accounting standards and regulatory guidelines; however it should be noted that the Guideline prohibits the inclusion of liabilities in the Statement of Pipeline Assets but allows depreciation to be reported.

3.4.1 ***asset capitalisation principles***

Consistent with section 3.1 above, all capital is captured in the Oracle financial reporting system through cost centre and project reporting. Annual capital expenditure additions are consistent with statutory financial reporting requirements. Pipeline assets are recognised on the basis "as commissioned" due to Oracle capturing the information on this basis. Acquired pipelines have had same accounting treatment and APA has continued to use this approach to capitalise pipeline assets.

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 3.3.2.

In addition to directly attributed capital costs and other attributable costs, each pipeline has been allocated a portion of the shared support assets.

The asset values in the *Statement of Pipeline Assets* have used the Roll Forward Model to determine accumulated depreciation. The asset values represent historical/acquired cost, plus capital expenditure, indexation (CPI escalation refer section 3.5.3 in this basis of preparation), less disposals, less accumulated impairment and less depreciation based on the asset lives identified in Appendix A of the Guideline adopted at inception.

The asset lives used are consistent throughout a pipeline lifetime. Accordingly, where a pipeline has previously had a RAB established, APA has continued to use the economic lives set at the time the pipeline was last a full regulation pipeline. Should the asset lives have changed throughout a pipelines lifetime, APA has maintained net present value neutrality to ensure that asset is depreciated only once.

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No revaluations of the asset base have been included in the Statement of Pipeline Assets. Asset values has been determined in accordance with the Roll Forward Material and the Guideline. While the ERA has not published Roll Forward Material, a consistent approach has been adopted for KKP.

Construction, acquisition, major maintenance and asset replacement costs are capitalised in accordance with *AASB 116 Property Plant and Equipment*. Any capital work in progress are not taken into consideration for the purposes of the light regulation framework.

Consistent with *AASB 116 Property Plant and Equipment*, the cost of major inspections has been added onto the carrying value of the pipeline asset in the capital maintenance line of the reporting template where applicable. Costs of previous major inspections are simultaneously derecognised.

The following costs associated with routine maintenance and repairs are expensed as incurred:

- administration and general overhead costs;
- labour and consumables; and
- staff training costs.

3.4.2 *depreciation principles*

Depreciation principles set out the basis on which pipeline assets and shared supporting assets are depreciated. Depreciation has been calculated consistently based on the asset lives principles in section 3.2.3, and 3.2.5 of the Guideline as well as rule 89 of the NGR (depreciation criteria). Assets are depreciated based on asset lives set out in worksheet 3.1. These are based on a range of lives for asset classes set out in Appendix A to the Guideline.

For the purposes of preparing the statement of pipeline revenues and expenses, the depreciation expense has been determined in accordance with the Roll Forward Model notwithstanding whether the pipeline has been subject to a regulatory determination.

Unless otherwise allowed in the Roll Forward Material for the statement of pipeline revenue and expenses and the calculation of the RAB value, depreciation is considered to mean straight line depreciation consistent with the method prescribed under the AASB. The depreciation calculated is to be the regulatory depreciation (based on the Regulatory Asset Base). Actual depreciation has been reflected in the template, not forecast depreciation.

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The asset value for each year was reduced by the depreciation expense as determined above (noting that the asset value has also been adjusted for indexation, capex, capital contributions and disposals).

The useful life of the asset and the reason for choosing this useful life is disclosed in worksheet 3.1 of the financial reporting template. These are consistent with asset life principles in Section 3.2.3 of the Guideline and rule 89 of the NGR. For other depreciable pipeline asset classes and for shared supporting assets, APA has applied depreciation principles in line with statutory reporting, which is in accordance with Australian Accounting Standards.

Due to the operation of the RFM Nominal Capex an inclusion of a half-year WACC is reported in table 3.1.

3.4.3 *disposals*

Disposals are recorded as proceeds received when an asset is disposed. Disposal in table 3 are not equal to cost – it represents the nominal proceeds received.

APA has continued to apply the regulatory financial capital maintenance principle which treats disposals as a “return of capital”. In essence, regulatory financial capital maintenance principles provide that once capital investment has been approved for inclusion in the Regulatory Asset Base, the business is allowed to earn a return on that capital until such time as the capital is returned to it either through depreciation reflected in approved tariffs or through cash proceeds received on disposal of an asset.

It should be noted that table 1.1.1 has heading inconsistencies in regards to Disposals. Despite headings requesting Disposal \$(at cost), the total amounts are presented in \$ millions.

The intention from the AER to report table 1.1.1 in millions is for the following reasons:

- It is consistent with how values are typically presented in the RCM and PTRM models, upon which this table is based
- It is better to represent summary financial information in millions usually to 1 or 2 decimal places. If users want to know the exact value then they can trace the formula back to the worksheets from which they are sourced.

The Disposals heading in the table 1.1.1 has been amended to reflect the nominal proceed amounts in line with other parts of the reporting template.

3.4.4 *carrying value review principles*

APA tests for statutory purposes, reported book values of property, plant and equipment, intangibles and goodwill, for impairment annually. Assets other than

goodwill that have previously reported a statutory impairment has been included in the reporting template (if applicable). No impairment for statutory purposes has been recorded to date by any of the four service providers subject to light regulation.

3.4.5 *shared support assets*

APA does not allocate its total shared support assets (e.g. shared IT systems) among its pipelines and other operations, in the APA Oracle financial system for statutory reporting purposes. As shared support assets are used to support the operations of multiple pipelines and other operations, an apportionment of the value of these assets are allocated to light regulated assets.

In order to determine the value of support assets attributable to each service provider, APA has adopted the ratio of attributed shared corporate expenditure (as identified in section 3.3.2.2 of this document) to total APA corporate costs for the reporting period:

$$\text{Service provider shared support assets} = \text{Total APA shared support assets} \times \frac{\text{Service provider corporate costs}}{\text{Total APA corporate costs}}$$

The proportion of APA shared support assets attributable to the service provider is reported in Table 3.2.1 of the reporting template.

3.4.6 *shared leased assets*

Shared leased assets represents shared assets such as leased motor vehicles, commercial property leases, land and access leases. The shared leased assets are based on the same attribution method used for the shared support assets above. For more detail on how leased assets is reported refer section 3.4.7.

3.4.7 *AASB 16 Leases*

AASB 16 *Leases* ("AASB 16") is effective for APA in the financial year beginning 1 July 2019 (financial year ended 30 June 2020).

APA has reported leases in accordance with AASB 16 in compliance with the accounting standards and the reporting template reporting requirements.

On transition of the AASB16 as at 1 July 2019 the net written down value (WDV) of the Right of Use (RoU) asset was added as capital additions in the Statement of Pipeline Assets and the RCM. No gross values nor accumulated depreciation was included as part of the transition amounts on 1 July 2019.

Reporting of leases in the Statement of Pipeline Assets as at 30 June 2020

financial reporting guideline for light regulation pipeline services basis of preparation

The light regulation reporting has complied with the Australian accounting standards (AAS) and regulatory guidelines; however it should be noted that the Guideline prohibits the inclusion of liabilities in the Statement of Pipeline Assets but allows depreciation to be reported. As a result the lease liability has been excluded and depreciation on the RoU asset is included.

Newly executed leases are included in the Statements of Pipeline Assets with the RoU gross asset values at cost and at period end the WDV of the leased assets is presented.

The pipelines subject to the Light regulation reporting may not report a portion of a directly attributable leased asset but all pipelines incur a portion of shared leased assets.

The depreciation expense reported for leased assets, has been determined in accordance with the Roll Forward Model (refer to section 3.4.2). In the Roll Forward model, depreciation expenses commences the year after the asset was capitalised. Hence no depreciation is reported for any leased assets in FY 20.

The AASB 16 directly attributable RoU impact on the Pipeline financial information relates to MSP.

AASB 16 reporting in the Recovered Capital Methodology calculation for FY 2020

For FY 20 the RoU has been included as capital expenditure addition in the RCM information which consists of two parts:

- For transition leases: The net book value of the leases as at 1 July 2019 were included.
- For newly executed leases: the opening RoU gross asset values are included in the RCM.

The depreciation for the RoU asset and as the lease liability for the lease were excluded from the RCM reporting in line with APA's interpretation the Guideline.

The annual interest expense has been included in line with the reporting template reporting requirement. No other interest is allowed to be reported under the Guideline.

3.5 asset valuation based on the regulatory asset base approach

In preparing the statement of pipeline assets, service providers are to report asset values based on the RAB value as specified in Table 4.1.

The RAB value that is reported in the statement of pipeline assets is the opening RAB value rolled forward to the relevant reporting year.

3.5.1 *establishing the opening RAB value*

The process for determining the opening asset value will depend on the pipeline’s individual circumstances, including whether or not a RAB value has previously been established for a pipeline either through an access arrangement in accordance with the NGR, Gas Code or other Commonwealth, State or Territory legislation.

The table below outlines the approach to establishing the opening asset value depending on the circumstances of the pipeline.

Approach to establishing the opening asset value

Circumstances of the pipeline	Approach to establishing the asset value
<p>Pipeline commissioned before the commencement of the NGR, and had a RAB value established via a mechanism such as the Gas Code.</p> <p>No RAB value subsequently established through a full access arrangement in accordance with the NGR.</p>	<p>Initial RAB value as per Gas Code or other relevant legislation / decision</p>
<p>RAB value previously established as a result of the pipeline being covered and subject to a full access arrangement in accordance with the NGR.</p>	<p>Opening RAB value based on the value established at the commencement of the most recent full access arrangement.</p> <p>The RAB value established at the commencement of the most recent full access arrangement will take precedence over any RAB values established under earlier access arrangements or other mechanisms in force prior to the commencement of the NGR.</p>
<p>No RAB value previously established.</p>	<p>An opening RAB value to be determined in accordance with the methodology set out in rule 77(1) of the NGR, based on the costs of construction incurred before commissioning of the pipeline.</p>

3.5.2 *Rolling forward the RAB value*

The NGR sets out rules for the roll forward of the RAB value for a covered pipeline. In order to provide interpretation and further guidance the AER will publish Roll Forward

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basis of preparation**

Material on how service providers of full and light regulation pipelines are to roll forward the pipeline's RAB value (the first quarter 2020).

The Roll Forward Material is applicable to service providers of light regulation pipelines for the purposes of determining the RAB value in accordance with this Guideline.

The Roll forward of the RAB value is to be based on the principles set out in the NGR, in particular rule 77(2). Each year from the year for which the RAB was first established, the RAB value is to be rolled forward as follows:

- Opening RAB value (as determined in accordance with Section 4.1 for the first year, then being equal to the closing RAB value for the previous year thereafter);
- Plus capital expenditure;
- Plus any amounts added to the capital base as a result of:
 - Capital contributions as described in rule 82 of the NGR;
 - Speculative capital expenditure as described in rule 84 of the NGR;
 - Re use of redundant assets as described in rule 86 of the NGR;
- Plus any amounts determined in accordance with rule 77(2)(ca.) in respect of extensions;
- Less depreciation calculated in accordance with Section 3.2.5 of the Guideline;
- Less redundant assets as described in rule 85 of the NGR;
- Less the value of pipeline assets disposed of during the year, noting that net disposals are to be recorded, meaning that the costs of realisation are to be subtracted from the proceeds from disposals.

The Roll Forward Material provides further guidance on the method in which, above elements are to be determined.

The models and calculations used in determining the RAB value are to be published along with the financial reporting template.

3.5.3 *Indexation and CPI escalations used*

In accordance with rule 89 of the NGR, the AER permits indexation to be applied to the RAB value. The Roll Forward Material details how indexation is to be applied to the RAB value.

Indexation is to be applied to the RAB value based on CPI All Capital Cities Weighted average published by the ABS calculated consistent with the end date assumed for

the RAB value (e.g. CPI calculated using June quarter index value for 30 June RAB Value).

3.5.4 *Central West Pipeline*

The RAB value calculated for the Central West Pipeline includes part of the payment associated with the pipeline management agreement buyout approved by the AER as conforming capital expenditure in the 2012 Roma Brisbane Pipeline access arrangement (refer to Appendix C of the AER Final Determination).

4 asset value determined using the recovered capital method

4.1 requirement to report RCM

In accordance with the Guideline, where a RAB value has not been established through an access arrangement, service providers are required to determine a pipeline asset value based on a recovered capital methodology (RCM value) and disclose their calculation of this value in worksheet 4 of the financial reporting template. For the purposes of this section, a RAB established through an access arrangement includes a RAB established through a determination made by the AER, by a determination under the Gas Code, or otherwise in accordance with any Commonwealth, State or Territory legislation. The following pipelines that were light regulation pipelines at July 2019 are considered to have a RAB established under an access arrangement: Moomba to Sydney and Central West Pipeline. For these pipelines, service providers are not required to provide the RCM value. An RCM value is necessary for CGP and KKP.

4.2 overview

An asset valuation calculated using the Recovered Capital Method (RCM) is intended to estimate the remaining value of a pipeline asset, in nominal terms, after allowing for ongoing capital expenditure, recovery of operating costs, a commercial return on capital, and tax thereon. It also includes an allowance for end-of-life decommissioning and environmental rehabilitation costs.

This calculation requires information regarding the original construction cost of the pipeline, in nominal terms in the hands of the original project proponent, and annual information on ongoing capital expenditure, operating costs, the required returns on capital in any given year commensurate with prevailing conditions in the market, and an estimate of the tax burden on the return on capital.

Column totals may not add due to rounding.

4.3 sources of information

While some of the required information can be drawn from published financial information, some cannot be observed, and consistent with section 5.1 of the Guideline, must be estimated or calculated based on a set of inputs.

This section outlines the sources of information applied, and the calculation methodologies and relevant inputs where appropriate.

4.3.1 *original construction cost information*

assets constructed by APA

The original construction cost of assets built by APA was extracted from the APA financial accounting system and fixed asset registers, as appropriate. Historical archived hard copy documents were consulted where necessary.

assets acquired by APA

Where assets were acquired by APA, the original construction cost was derived from a number of sources:

- fixed asset registers and accounting system information acquired from the vendor on the transaction;
- public statutory account information from the Australian Securities and Investments Commission (ASIC) website, government websites, or other public sources.

Information for years following APA's acquisition of the business has been drawn directly from APA financial systems.

Disposals are recorded at the original cost of the asset.

4.3.2 *revenue and operating expenditure*

For as long as the service provider has been part of the APA Group of companies, revenue information has been drawn directly from the APA financial systems.

Prior to APA acquisition, revenue and operating expenditure has been derived from financial information provided by the previous owner's, financial statements lodged by the service provider with ASIC, or from other public sources as appropriate.

In instances where APA has used other sources of information, details can be found in Tab 6 of the reporting templates for each light regulation pipeline.

operating expenditure during period of APA Group ownership

While assets have been part of the APA Group, some operating costs have been incurred at a divisional or corporate level, rather than by individual service provider entities. For the purposes of reporting in accordance with the Guideline for light regulation pipeline services, the operating expenditure incurred at the divisional or corporate level has been allocated to individual service providers.

corporate costs during period of APA Group ownership

APA reports its corporate costs at the consolidated level for statutory accounting purposes. That is, APA does not allocate its corporate costs among its operating companies in its financial reporting systems.

In preparing this financial information, APA has allocated the appropriate amount of corporate costs to be borne by each service provider in accordance with the revenue based allocation approved by the AER in the APA VTS Access Arrangement 2018-2022 for its shared corporate costs.

APA operates as a consolidated corporate entity, and undertakes many activities, such as insurance, finance, and engineering, centrally. Prior to 2016, APA allocated these shared support costs among the operating companies on the basis of relative revenue for internal information purposes.

In 2016, APA commenced reporting its shared support costs only at the consolidated financial statement level; it ceased allocating shared support costs to the operating companies. This change was prompted by the financial market's interest in the total amount of shared support costs incurred by the listed entity, and the fact that financial information for the individual operating companies was not released publicly and was not relevant to the valuation of APA as a whole, single entity.

When the Part 23 reporting obligations were introduced in 2017, APA was required to report each non-scheme pipeline separately, and therefore to determine an amount of these shared support costs that would be attributed to each. The same methodology applies for the pipelines subject to Light regulation pipeline services.

For the light regulation reporting purposes, APA has reported its shared support expenditure by applying a relevant allocation method inclusive of adjustments to revenue. Refer to Section 3.3.2.2 for further details.

The proportion of APA shared corporate costs attributable to the service provider is reported in Table 2.4.1 of the reporting template.

4.3.3 *shared support assets*

APA reports its total shared corporate assets (e.g. share IT systems, etc.) at the consolidated level in the audited financial statements.

APA does not allocate its shared support assets among its light regulation pipelines and other operations, in the Oracle financial system.

Consistent with the approach to corporate costs above and the pipeline financial information, APA has reported its shared support costs by applying a relevant allocation method inclusive of adjustments to revenue.

**financial reporting guideline for light regulation pipeline services
basis of preparation**

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

$$\text{Service provider shared support assets} = \text{Total APA shared support assets} \times \frac{\text{Service provider corporate costs}}{\text{Total APA corporate costs}}$$

Shared asset costs have been attributed to each pipeline for years from construction or acquisition, as appropriate. The proportion of APA shared support assets attributable to the service provider in 2020 is reported in Table 3.2.1 of the reporting template.

Shared leased assets

Shared Leased Assets represents shared assets such as leased motor vehicles, commercial property leases, land and access leases. The shared leased assets are based on the same attribution method used for the shared support assets above. For more detail on how leased assets is reported refer section 3.4.7.

4.3.4 *return on capital*

The return on capital is calculated in accordance with the Guideline as discussed in section 2.1 and Appendix 1.

4.3.5 *net tax liabilities*

In order to estimate a net tax liability, APA has adopted a post-tax approach with net tax liabilities modelled explicitly, by undertaking an abbreviated tax calculation:

1. starting with revenue as reported above;
2. less operating expenditure as reported above;
3. interest expense was taken to match that used in the Return on Capital calculation as discussed above;
4. tax depreciation was calculated based on accumulated capital expenditure as reported above, with tax depreciation calculated on a straight line basis over a 20 year life, commencing in the year after expenditure; and
5. tax liability was calculated as this taxable income, multiplied by the prevailing tax rate for the relevant year, as shown below. Where tax losses are generated through this calculation, they are accumulated and preserved, and used to offset against future net tax liabilities as they arise.

4.3.6 *negative residual values*

The Guideline (AER p18, ERA p19) and the reporting template provides for a negative residual value to be recorded to account for end-of-life decommissioning and reclamation costs.

APA has not included negative residual values in this set of reporting.

4.4 **estimates**

For those few occasions where there were gaps in a series of historical financial information, APA undertook a range of estimation approaches as appropriate to the circumstances:

- where the data stream (revenue, operating expenditure, etc) evidenced a steady pattern, APA interpolated gaps using a straight line methodology; and
- where gaps existed in the capital expenditure stream, APA applied a straight-line approach to interpolate between the historical asset values before and after the gap.

4.4.1 *Estimates for Kalgoorlie Kambalda Pipeline*

RCM value calculated for the Kalgoorlie Kambalda Pipeline includes estimates:

- of revenue from commissioning to 30 June 1999 and from 1 July 2004 to 30 June 2010.
- of operating expenditure from commissioning to 30 June 2000 and from 1 July 2005 to 30 June 2008.

The estimate of revenue and operating expenditure for the period above was based on actual revenue received and actual operating expenditure incurred, discounted back to the year to the estimate relate to.

4.4.2 *Carpentaria Gas Pipeline*

RCM value calculated for Carpentaria Gas Pipeline includes:

- o estimates of revenue and operating expenses from commissioning 30 June 2000 and estimates of operating expenses for the financial years ended 30 June 2003 and 30 June 2004. Estimates were based on the extrapolation of historical data.
- o part of the payment associated with the pipeline management agreement buyout as was approved by the AER as conforming capital expenditure in the 2012 Roma Brisbane Pipeline access arrangement (refer to Appendix C of the AER Final Determination).

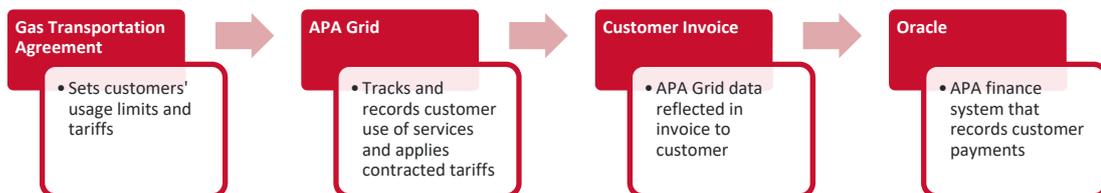
5 weighted average price information

5.1 sources of information

APA has used invoice data for each pipeline for each month of the reporting period to derive weighted average price information. Invoice data is the source for both the revenue and usage data required to perform the weighted average price calculation. In all cases, actual revenue and usage data from invoices has been used – there has been no need to estimate revenue or usage information. In some circumstances, revenue has been allocated to individual pipelines, as described in Section 4.3.1 below.

Invoice data is derived from “APA Grid”, which is a suite of Information Technology systems that track pipeline usage and apply relevant tariffs to generate invoice data. APA’s Oracle finance system records customer payments.

The prices contained in APA Grid are sourced from Gas Transportation Agreements with customers.



In some instances, a single service is provided across multiple pipelines under a single price. Invoices for these services are issued from a single APA business entity. In these circumstances, APA internal allocation spreadsheets allocate revenue between pipelines. The method used for allocation of revenue between pipelines in these circumstances is described in section 5.3.1 below.

5.2 methodology

The weighted average price calculations for the relevant reporting period have been determined using the formulae set out below:

$$\text{Capacity-based charging} = \frac{\text{\$Revenue}}{\text{Maximum Daily Quantity}}$$

financial reporting guideline for light regulation pipeline services
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$$\text{Volumetric-based charging} = \frac{\$Revenue}{\text{Gigajoules transported}}$$

5.3 determination of revenue

5.3.1 revenue by pipeline

Revenue has been allocated to individual pipelines and services in line with contracted services and usage for each pipeline. In most cases, Gas Transportation Agreements include prices that are expressed on a pipeline-by-pipeline basis, and the allocation of revenue between pipelines adopts these individual pipeline prices and contracted usage (for capacity charging) or measured usage (for volumetric charging).

Where a single service is contracted with a customer across multiple pipelines, such that there is no explicit price set for each pipeline segment involved in providing the service, revenue is allocated between pipelines using the allocation methodology described below:

- where there are regulatory obligations applying to prices on individual pipelines or pipeline segments, including those for pipelines covered by full or light regulation, the revenue allocated to that pipeline or pipeline segment will reflect the revenue to be derived from applying a price consistent with it being subject to that specification or limitation;
- where there are contractual obligations applying to prices on individual pipelines or pipeline segments, the revenue allocated to that pipeline or pipeline segment will reflect the revenue to be derived from applying a price consistent with it being subject to those specifications or limitations; and
- where there are no regulatory or contractual obligations that influence prices on individual pipelines or pipeline segments included in the multi asset service, revenue will be allocated based on the actual or nominated relative usage of particular pipelines within the service.

This allocation methodology also determines the reporting of revenue by pipeline and pipeline service in APA's financial reporting under section 3.3.1.2 of this document.

In developing this allocation methodology, APA identified factors relevant to the setting of its prices on individual pipelines (such as light regulation), and applied them to the revenue allocations. This is because the allocations contribute to the calculation of a weighted average price that is intended to assist potential customers understand what other customers are paying on a pipeline-by-pipeline basis, and thereby inform their view of APA's pricing offer.

financial reporting guideline for light regulation pipeline services basis of preparation

It is therefore appropriate that factors that influence prices on individual pipelines or pipeline segments are also reflected in the revenue allocation used to derive the weighted average price for each pipeline or pipeline segment. For example, where a pipeline covered by light regulation (such as the Carpentaria Gas Pipeline) is used to supply a multi-pipeline service, the amount of revenue allocated to that pipeline in connection with the multi-pipeline service would, subject to circumstances where price discrimination would be efficient, reflect the relevant non-discriminatory tariff offered on that pipeline on a stand-alone basis.³

Consequently, the numeric quantity or percentage of the allocator that is applied for each revenue item will vary, depending on the specific nature of the multi-pipeline service, and in particular, the pipelines involved.

APA considers that this is the most appropriate method of allocation, as it reflects the reality of the regulatory and contractual restrictions on prices (and therefore revenue) that may be earned on individual pipeline segments. This method ensures that, where regulatory and/or contractual limitations apply to stand-alone pipeline or pipeline segments, the revenue allocated to those pipeline segments is consistent with those limitations.

5.3.2 *government fees and charges*

In some jurisdictions, governments levy additional fees and charges on pipelines or pipeline licences. Where these fees are passed on by APA through a discrete charge, these charges have not been included in the revenue used to calculate weighted average prices.

5.4 **pipeline services**

APA has classified pipeline revenue into service type as follows:

- Transportation services
 - Firm forward haul transportation services (includes bi-directional services, if a pipeline operates in a bi-directional manner);
 - Interruptible or as available transportation services;
 - Backhaul services;
- Stand-alone firm compression services; and
- Firm storage (combined park and park and loan) services.

³ Section 136 of the National Gas Law specifies that a covered pipeline service provider must not engage in price discrimination when providing light regulation services, unless to do so is conducive to efficient service provision.

APA has determined the pipeline service type of each of its contracted services in line with the nature and substance of the contracted service.

5.4.1 *transportation services*

firm forward haul

Firm services have been identified as those services that provide for the receipt and delivery of gas at specified points up to a reserved maximum daily quantity (MDQ) on a firm basis and without interruption except as expressly permitted under contract.

APA has consolidated weighted average price information for firm forward haul services in each direction for pipelines capable of providing firm forward haul services in each direction. Relevant bidirectional pipelines are:

- Moomba Sydney Pipeline

All other relevant non-scheme pipelines are currently single direction pipelines, and firm forward haul services reported values relate to one direction only.

Firm forward haul services can have a number of different charging methods, as described in section 5.5 below. These are:

- Capacity-only charge, where all firm capacity is charged on a \$/GJ/MDQ/day basis;
- Throughput-only charge, where firm capacity is reserved, but charged on a \$/GJ/day basis; or
- A combination of capacity and throughput charge, where part of the firm capacity is charged on a \$/GJ/MDQ/day basis, and part on a \$/GJ/day basis.

interruptible or as available transportation services

APA has identified Interruptible, As Available and Authorised Overrun transportation services as transportation services provided to customers with the following characteristics:

- No firm reserved MDQ;
- Scheduled only on a day-ahead or within day basis; and
- Have a priority below the firm forward haul service.

Where Interruptible and As Available services are offered in both directions on a bidirectional pipeline, consistent with firm transportation services, weighted average prices consolidate prices charged in both directions.

financial reporting guideline for light regulation pipeline services basis of preparation

APA has reported Authorised Overrun services with Interruptible and As Available services, as they are similar in substance to the listed services. Where Authorised Overrun services are offered in both directions on a bidirectional pipeline, weighted average prices consolidate prices charged in both directions for this service.

A customer may hold a contractual right to nominate Interruptible, As Available and/or Authorised Overrun transportation services, but not use these services within a reporting period.

APA has used the number of customers with contracted Interruptible, As Available and Authorised Overrun transportation services to determine whether it must publish weighted average price information for these services.⁴

Where there is no usage of Interruptible, As Available and Authorised Overrun transportation services within a reporting period by contracted customers, APA is unable to publish a weighted average price for these services.

Therefore, APA has published a weighted average price for these services as long as there was more than two contracted customers, and at least one customer transporting gas under these services in the reporting period.

The reporting units for Interruptible, As Available and Authorised Overrun transportation services are \$/GJ/day.

backhaul services

Backhaul services are identified as interruptible services provided on a single direction pipeline in a direction other than the direction of firm forward haul services provided on that pipeline.

Backhaul services can only arise on pipelines that offer a firm transportation service in one direction and have more than one gas Receipt Point on the pipeline.

With the exception of the Parmelia Gas Pipeline, all APA non-scheme pipelines with multiple Receipt Points have firm bi-directional capability. As a result, APA no longer offers backhaul services to customers in its available suite of services. In some circumstances, legacy contracts include backhaul services (in many cases contracted prior to these pipelines having firm bidirectional gas transportation capability), as reported in the template.

⁴ As noted in section 5.7 below, APA is not required to publish weighted average price information in certain circumstances. This includes where a pipeline service was provided, directly or indirectly, to no more than two users of the non-scheme pipeline.

5.4.2 *stand-alone firm compression services*

APA provides firm stand-alone compression services at Moomba and Wallumbilla. These services are identified through contractual arrangements that establish an explicit price and MDQ for the compression service.

Firm compression services are only offered in a single direction.

All firm stand-alone compression services contracted with customers have been reported in this weighted average price category.

The reporting unit for the firm stand-alone compression service is \$/GJ/MDQ/day.

5.4.3 *firm storage*

Firm storage services are identified by reference to the contractual arrangements for their provision. Firm storage includes Firm Park, Firm Loan and Firm Park and Loan services.

Firm Park involves the park of gas on specified pipelines or locations up to a reserved MDQ on a firm basis and without interruption, except as expressly permitted under contract. Similarly, Firm Loan involves the loan of gas from specified pipelines or locations up to a reserved MDQ on a firm basis and without interruption, except as expressly permitted under contract. Park and Loan storage services can be provided together or independently. There is no directional element to Firm storage services.

All Firm Park and Firm Park and Loan services contracted on relevant pipelines to customers have been reported in this weighted average price category.

Where Firm Park or Firm Park and Loan service is offered as a Multi Asset Service, APA has allocated a portion of the revenue and capacity reservation associated with that Firm Park or Firm Park and Loan service to each pipeline involved in the service.

The reporting unit for the Firm Park and Firm Park and Loan services is \$/GJ/MDQ/day.

5.4.4 *imbalance/unauthorised overrun charges*

Customers may incur additional charges depending on their nomination and usage behaviour. This includes the potential for Imbalance charges and Unauthorised Overrun charges.

Imbalance and Unauthorised Overrun charges are not considered by APA to be charges for any of the transportation, compression or storage services for which weighted average price information must be published under the Guideline. These charges will not ordinarily be incurred by a customer taking a transportation, compression or storage service, provided that the customer's nominations are accurate.

Therefore, such charges incurred by customers have not been included in the calculation of weighted average prices for the transportation, compression or storage services referred to in the Guideline. The revenue from these additional charges has been included as part of "other direct revenue" reporting in Table 2.1 of the reporting template.

5.4.5 *auction service charges*

APA provides the auction service to customers participating in the AEMO day ahead capacity auction. APA levies a charge for each GJ of won auction capacity on APA assets in accordance with the National Gas Rules.

Auction service charges are not consistent with any of the categories of service for which weighted average price information must be published under the Guideline. The revenue from the auction service has been included as part of "Other direct revenue" reporting in Table 2.1 of the reporting template.

5.4.6 *revenue Carpentaria Gas Pipeline*

APA procures compression services from the Santos-owned Ballera compressor station to allow users' gas to enter the CGP. Reported revenue includes the revenue from the compressor services, and reported operating expenditure includes the cost of acquiring the compressor services. However, compression is not reported in the Weighted Average Price tab, as the compression services are not provided by means of the Covered pipeline.

5.5 **charging methods**

APA has separately reported charges under different charging methods in accordance with the Guideline.

Weighted average prices are classified under the postage stamp charging method where underlying contractual prices do not vary in respect of the distance gas travels on the pipeline.

Weighted average prices are classified under zonal-based charging method where charges vary depending on the location of Receipts and Deliveries made, but are not based on a dollar per GJ per kilometre charging method.

The distance-based charging method has been used where prices to customers are expressed on a dollar per GJ per kilometre basis or involve part-haul services. Major delivery points are then identified as those with more than two customers taking gas at that location. All other locations are reported under "Other Delivery Points" in Table 5.1 of the reporting template.

Some customers using the bidirectional Moomba Sydney Pipeline pay prices determined by distance between receipt and delivery points. These are expressed

under contract either in GJ Kilometres, or as a capacity charge calculated using GJ Kilometres as a base. In calculating a weighted average price for the Moomba Sydney Pipeline, APA found that the reporting template specified charging methods did not adequately accommodate this charging method. APA found that using the worksheet to generate weighted average prices resulted in weighted average prices that would not be meaningful for stakeholders.

For firm forward haul transportation services, and Interruptible or As Available transportation services provided to customers under the above described charging method, APA has published weighted average price information in addition to that required in the reporting template. The additional information includes the calculation of the weighted average price paid by customers on the Moomba Sydney Pipeline on a GJ Kilometre basis, accompanied by a table of distances between major delivery points (provided in the notes to the MSP reporting template) to assist stakeholders to calculate the weighted average transportation price between these locations.

APA considers that this additional reporting complies the intent of Part 23 of the Rules, and provides meaningful information to stakeholders on prices paid by customers for transportation services on the Moomba Sydney Pipeline.

5.5.1 *capacity and throughput charges*

Capacity based charges have been identified as those charges associated with a firm right to capacity, where the amount paid by the customer in a month does not vary with individual customer throughput within the contractual bounds specified under the firm capacity right. Throughput based charges are identified as those where the amount paid by the customer in a month varies with individual customer throughput.

5.6 **minimum charges**

The table below describes the various types of minimum charges levied by APA in pipeline services contracts, and the treatment of these charges in the calculation of weighted average prices.

Ref no.	Minimum charge description	Treatment for weighted average prices
1	Minimum charge for pipeline services contracts with services subject to variable charges only, where the minimum charge applies to all (or multiple) services in the contract.	Charges are included in "Other revenue" in Table 2.1.1. Revenue by Service. Revenue earned by APA from charges of

		this nature in multi asset pipeline services contracts is allocated equally across the pipelines subject to the agreement.
2	Minimum charge for firm transport services in-lieu of a capacity charge	Charges are included in relevant pipeline services revenue in weighted average price calculations. Minimum bills of this description are treated as a Firm capacity charge.
3	Minimum charge applicable to individual services with variable (volumetric-based) charges (for example, a minimum charge for an As Available service that has an otherwise volumetric-based charge)	Charges are included in relevant pipeline services revenue in weighted average price calculations.

5.7 exempt services

Pursuant to Rule 556(3), service providers are not required to publish weighted average price information for a pipeline service if:

- The pipeline service was provided, directly or indirectly, to no more than two users of the non-scheme pipeline; and
- The service provider gives notice to the AER at least 20 business days before the date required for publication certifying this.

These provisions are intended to maintain the confidentiality of customers on the pipeline. APA has notified the AER of those services that are exempt from reporting, and listed those services in Table 5.1.1 of the reporting template.

In accordance with the Guideline, APA has not reported revenue in respect of exempt services against the relevant service category in Table 5.1. Instead, revenue associated with exempt services is aggregated and reported under "Total exempt services" in Table 5.1.

A1. WACC Hierarchy

A1.1 applying the Guideline WACC hierarchy

1. Where the light regulation pipeline was under full regulation in part of a given year for which an estimated WACC is required, the WACC from the pipeline's ACCC/AER final decision applicable to that given year is to be used.

Relevant full regulation determinations were in effect as follows:

Pipeline	Moomba Sydney Pipeline	Moomba Sydney Pipeline	Central West Pipeline
Date of Final Determination	8 Dec 2003	Effective 1 July 2005 ⁵	19 Oct 2000
Cost of Equity	11.35%	11.53%	15.38%
Cost of Debt	6.26%	6.26%	7.58%
WACC	7.58% ⁶	8.67%	10.55%
Date Light Regulation Commenced		February 2009 ⁷	April 2010 ⁸

2. Where there was an ACCC or AER WACC instrument, guideline, or statement of regulatory intent (WACC Instrument) in place that would have been applied at the time this WACC Instrument is to be applied, to the extent possible, as it would have been applied at the time. The applicable guidelines are the 2013 AER rate of Return Guideline and the 2018 binding Rate of Return Instrument.

2013 AER Rate of Return Guideline

The 2013 Rate of Return Guideline was issued in December 2013. In accordance with the Guidelines, it will apply for the 2014-15 fiscal year reporting periods and subsequent years until the 2018 Rate of Return Instrument is applicable for the reporting period from 2019-2020 onwards. The AER December 2013 [Rate of Return Guideline](#) specifies:

- the weighting formula, applying a gearing ratio of 0.6; (p9)

⁵ Moomba Sydney Pipeline Access Arrangement Information. This Access Arrangement Information supports the Moomba Sydney Pipeline Access Arrangement drafted and approved by the Australian Competition and Consumer Commission on 8 December 2003 and amended with effect from 1 July 2005 by order of the Australian Competition Tribunal made on 19 May 2005. July 2005, Table 3.

⁶ Per ACCC Final Approval p36: "Derived for the mainline segment of the pipeline. The effective tax rate for the regional laterals is 14.8 % which results in a post-tax nominal WACC of 7.84%"

⁷ National Competition Council, Light Regulation of the Moomba to Sydney Pipeline System Application for a light regulation determination in respect of the covered portion of the Moomba to Sydney natural gas pipeline system Final Decision and Statement of Reasons, 19 November 2008.

⁸ National Competition Council, Light Regulation of the Central West Pipeline - Application for a light regulation determination in respect of the Central West Pipeline- Final determination and Statement of Reasons, 19 January 2000.

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- the use of the Sharpe-Lintner CAPM (SLCAPM) as the foundation model for determining the cost of equity; (p13)
- the risk free rate is estimated as the yield on 10-year Commonwealth Government Securities, measured over a period of 20 business days over a period as close as practicably possible to the commencement of the regulatory control period;⁹ (p15);
- an equity beta of 0.7 (p15);
- the MRP (Market Risk Premium) will be a point estimate based on the AER's regulatory judgement (p16); and
- if the starting point determined by the application of the foundation model is too high or too low, "the point estimate will be changed by an amount informed by the other information (using the AER's regulatory judgement)."
- "the allowed return on debt using a trailing average portfolio approach following the completion of a transitional arrangement period" (p19) (Note that the Light Regulation Guideline requires an "on the day" cost of debt to be determined);
- The return on debt is to be estimated "Using the published yields from an independent third party data service provider" (p21);
- "Using a credit rating of BBB+" (p21);
- "Using a term to maturity of debt of 10 years" (p21);
- The 2013 Rate of Return (RoR) Guideline goes on (p 21-23) to specify the criteria under which an averaging period is to be established. However the Light Regulation Guideline specifies that the averaging period is to be the last 20 business days of the year preceding that for which the cost of debt is to be determined.

The 2013 RoR Guideline relies on the AER's judgement in both determining the Market Risk Premium to apply in the SLCAPM and then adjusting the outturn cost of equity. In applying the 2013 RoR Guideline, APA has adopted the AER's determination of the MRP from relevant contemporaneous regulatory decisions, which are specified below.

⁹ As there are no provisions outlining the criteria under which the service provider may nominate an averaging period for the risk free rate, it appears that the nomination of the averaging period is subject to the AER's discretion. However, under the Light Regulation Guideline, the risk free rate is to be observed over the last 20 business days of the year preceding that for which the cost of equity is to be determined.

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Relating to the cost of debt, a review of AER determinations under this Guideline has revealed a range of approaches, including relying on various methods to extrapolate 7-year bond data to estimate 10-year yields.

For the purposes of reporting under the Light Regulation Guideline, APA has assumed that the AER applied its 2013 RoR Guideline in all decisions issued while that Guideline was in effect. We have therefore adopted the cost of debt specified in those decisions, as adjusted for changes in the risk free rate for the last 20 business days of the year.

The approach applied to updating the cost of debt for changes in the risk free rate is discussed below.

AER 2018 Rate of Return Instrument

The 2018 Rate of Return Instrument was issued in December 2018. In accordance with the Light Regulation Guideline, it will apply for the 2019-20 fiscal year and subsequent years until a new Instrument is promulgated.

The AER 2018 rate of return instrument specifies:

- the weighting formula, applying a gearing ratio of 0.6; (para 3(d))
- That the cost of equity is to be calculated using the Sharpe-Lintner Capital Asset Pricing Model (para 4) using:
 - A beta value of 0.6 (para 4(b));
 - A Market Risk Premium of 6.1 per cent (para 4(c));
- The risk free rate of return is to be calculated as a simple average of the daily yields to maturity of Commonwealth government securities, converted into an effective annual rate (para 5);
- The criteria under which the risk free rate averaging period is to be nominated (para 8). However, the Light Regulation Guideline specifies that the risk free rate is to be observed over the last 20 business days of the year preceding that for which the cost of equity is to be determined.
- The cost of debt is to be calculated using a 10-year trailing average (para 9). However, the Financial Reporting Guideline for Light Regulation Pipelines requires an on-the-day cost of debt to be applied. To accommodate this requirement, APA has applied the current year cost of debt advised by the AER as part of the annual tariff variation for its fully regulated pipelines. This will not necessarily be calculated over the last 20 trading days of the year prior to which the cost of debt is to be applied.

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- The cost of debt is to be estimated using a BBB+ credit rating, to be synthesised by weighting a data provider's A curve by 1/3 and their BBB curve by 2/3, for debt with a 10-year yield to maturity (para 11).). To accommodate this requirement, APA has applied the current year cost of debt advised by the AER as part of the annual tariff variation for its fully regulated pipelines.
- the criteria under which a separate averaging period is to be nominated by the service provider for the purposes of calculating the return on debt (Paras 23 and 24). However the Light Regulation Guideline specifies that the averaging period is to be the last 20 business days of the year preceding that for which the cost of debt is to be determined.
- the value of imputation credits is set at a value of 0.585 (para 27).

Under the 2018 rate of return instrument, the relevant WACC values applicable to the 2019/20 regulatory year would be calculated as follows:

Cost of equity:		
Risk free rate (June 2019)	1.3860%	
Beta	0.6	
Market Risk Premium	6.1%	
Cost of equity		5.046%
On-the-day cost of debt (May 2019) ¹⁰		4.2644%
Gearing ratio	60%	
Tax rate	30%	
Value of imputation credits (Gamma)	58.5%	
Nominal Vanilla WACC 2019-20		4.5770%

3. The estimated WACC is to be taken from the most recent previous ACCC/AER final decision that covers the same year and the same type of gas asset (i.e. transmission or distribution).

For the purposes of applying Level 3 of the hierarchy, and for determining the relevant WACC parameters to assist in applying the 2013 Rate of Return Guideline in hierarchy Level 2 above, the following AER/ACC determinations are referenced:

Year ended June	Determination	Cost of Equity	Cost of Debt	WACC	Gamma
2019	Victorian Transmission System 2018-23	7.30%	4.72%	5.75%	40%
2018	Roma Brisbane Pipeline 2017-22	7.00%	4.64%	5.58%	40%
2017	Amadeus Gas Pipeline 2016-21	7.10%	5.56%	6.18%	40%
2016 2015 2014	Victorian Transmission System 2013-17	8.02%	6.68%	7.22%	25%
2013	Roma Brisbane Pipeline 2012-17	7.75%	7.01%	7.31%	25%

¹⁰ Letter from AER dated 22 May 2019 advising annual return on debt estimate for 2019-20 for Roma Brisbane Pipeline and Amadeus Gas Pipelines.

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2012	Amadeus Gas Pipeline 2011-16	10.33%	9.33%	9.73%	25%
2011 2010 2009 2008	Victorian Transmission System 2008-12	12.29%	9.38%	10.55%	50%
2007	Roma Brisbane Pipeline 2006-11	11.70%	6.84%	8.84%	50%
2006 2005	APA GasNet 2003-07 (2004 Revisions)	11.40%	7.28%	8.93%	50%
2004 2003	Moomba Sydney Pipeline 2004-09	11.35%	6.26%	8.30%	50%
2002	Moomba Adelaide Pipeline 2002-05	12.55%	6.81%	9.10%	50%
2001 2000	Central West Pipeline 2000-10	15.38%	7.58%	10.55%	50%
1999 1998	GasNet 1998-2002	13.20%	7.20%	10.70%	50%

These values are drawn from the AER/ACCC Final decisions specified. As required in Chapter 6 of the Light Regulation Guideline, these values must be updated for the risk free rate and cost of debt as observed over the last 20 business days of the year prior to the relevant regulatory year. For example, the values shown above for the regulatory year ended June 30 2007, drawn from the AER Final Decision for the Roma Brisbane Pipeline access arrangement, must be updated for the risk free rate and cost of debt as observed for the last 20 business days of June 2006.

The cost of debt must also be amended to reflect an “on the day” cost of debt, whereas the values shown above may reflect some transition to the AER’s 10-year rolling average cost of debt. However, each of the decisions specified above for periods in which the 2013 Rate of Return Guideline would apply, are first decisions along the transition to a weighted average portfolio cost of debt, and therefore report on-the-day cost of debt values.

The update process is described below.

4. The estimated WACC is to be taken from the most recent previous ACCC/AER final decision that covers the same year and different type of gas asset

Relevant gas transmission determinations are available to satisfy hierarchy Level 3 back to 1998; there are no AER/ACCC gas distribution determinations prior to 1998.

Level 4 of the hierarchy will not apply.

5. The estimated WACC is to be based on the first available ACCC/AER final gas transmission or distribution decision from a later year.

In some circumstances, the Light Regulation Guideline will require a WACC to be estimated for years prior to 1998. For those years, the GasNet 1998 determination will be applied, subject to updating the market parameters over the last 20 business days of the year prior to the year for which the WACC is to be determined. The update process is described below.

A1.2 applying the WACC hierarchy - summary

In practice, the WACC hierarchy will be applied differently to different pipelines, depending on the date and duration of their last full regulation determination, the date each became subject to light regulation, the presence of an ACCC/AER Rate of Return Guideline or Instrument, etc. This is summarised below for each reporting pipeline¹¹:

Fiscal year ended June	MSP	CWP	CGP	KKP
2020	2	2	2	2
2019	2, 3	2, 3	2, 3	2, 3
2018	2, 3	2, 3	2, 3	2, 3
2017	2, 3	2, 3	2, 3	2, 3
2016	2, 3	2, 3	2, 3	2, 3
2015	2, 3	2, 3	2, 3	2, 3
2014	3	3	3	3
2013	3	3	3	3
2012	3	3	3	3
2011	3	3	3	3
2010	3	1	3	3
2009	1	1	3	3
2008	1	1	3	3
2007	1	1	3	3
2006	1	1	3	3
2005	1	1	3	3
2004	1	1	3	3
2003	1	1	3	3
2002	N/A	1	3	3
2001	N/A	1	3	3
2000	N/A	1	3	3
1999	N/A	N/A	3	3
1998	N/A	N/A	3	3
1997	N/A	N/A	5	5
1996	N/A	N/A	5	5

A1.3 updating the reported WACC

The Financial Reporting Guideline for Light Regulation Pipelines requires any observed WACC values to be updated to reflect the risk free rate as observed over the last 20 trading days of the fiscal year prior to that for which the WACC is to be applied. The costs of equity and debt, and the WACC reported above reflect the risk free rate observed over an averaging period specified by the pipeline and agreed by the AER.

APA has adjusted the Final Decision cost of equity, cost of debt and WACC for movements in the risk free rate between that specified in the Final Decision and the

¹¹ Entries marked as "2, 3" indicate that the 2013 Rate of Return Guideline or Instrument is to be applied (hierarchy level 2) but that the application will need to reference contemporaneous regulatory determinations for other pipelines (hierarchy level 3) to assist in its application, as discussed above.

average of the yields on 10 year Commonwealth of Australian securities¹² calculated over the last 20 trading days of the year prior to the WACC being applied. This approach is demonstrated for the adjusted Vanilla WACC values below:

Year ended June	Determination	Determination Risk Free Rate	RBA Risk Free Rate Last 20 trading days	Movement in Risk Free Rate	Reported Vanilla WACC	Adjusted Vanilla WACC
2020	2018 Rate of Return Instrument		1.3860%			4.58%
2019	Victorian Transmission System 2018-23	2.7300%	2.697%	-0.033%	5.75%	5.72%
2018	Roma Brisbane Pipeline 2017-22	2.440%	2.408%	-0.032%	5.58%	5.55%
2017	Amadeus Gas Pipeline 2016-21	2.570%	2.109%	-0.461%	6.18%	5.72%
2016	Victorian Transmission System 2013-17	3.220%	2.988%	-0.232%	7.22%	6.99%
2015	Victorian Transmission System 2013-17	3.220%	3.703%	0.483%	7.22%	7.70%
2014	Victorian Transmission System 2013-17	3.220%	3.531%	0.311%	7.22%	7.53%
2013	Roma Brisbane Pipeline 2012-17	2.950%	2.994%	0.044%	7.31%	7.35%
2012	Amadeus Gas Pipeline 2011-16	5.530%	5.155%	-0.375%	9.73%	9.36%
2011	Victorian Transmission System 2008-12	6.290%	5.326%	-0.964%	10.55%	9.59%
2010	Victorian Transmission System 2008-12	6.290%	5.567%	-0.723%	10.55%	9.83%
2009	Victorian Transmission System 2008-12	6.290%	6.587%	0.297%	10.55%	10.85%
2008	Victorian Transmission System 2008-12	6.290%	6.205%	-0.085%	10.55%	10.46%
2007	Roma Brisbane Pipeline 2006-11	5.700%	5.738%	0.038%	8.84%	8.88%
2006	APA GasNet 2003-07 (2004 Revisions)	5.570%	5.141%	-0.429%	8.93%	8.50%
2005	APA GasNet 2003-07 (2004 Revisions)	5.570%	5.845%	0.274%	8.93%	9.20%
2004	Moomba Sydney Pipeline 2004-09	5.350%	4.803%	-0.547%	8.30%	7.75%
2003	Moomba Sydney Pipeline 2004-09	5.350%	6.017%	0.667%	8.30%	8.97%
2002	Moomba Adelaide Pipeline 2002-05	5.610%	5.897%	0.287%	9.10%	9.39%
2001	Central West Pipeline 2000-10	6.380%	6.175%	-0.205%	10.84%	10.63%
2000	Central West Pipeline 2000-10	6.380%	6.216%	-0.164%	10.84%	10.68%
1999	GasNet 1998-2002	5.350%	5.590%	0.239%	10.70%	10.94%
1998	GasNet 1998-2002	5.350%	7.151%	1.801%	10.70%	12.50%
1997	GasNet 1998-2002	5.350%	8.928%	3.578%	10.70%	14.28%
1996	GasNet 1998-2002	5.350%	8.847%	3.497%	10.70%	14.20%

A1.4 tax liabilities in Table 1.1.1

The Australian regulatory framework provides for a “vanilla” Weighted Average Cost of Capital (“Vanilla WACC”) consisting of an after-tax return on equity and a pre-tax return on debt. This reflects the fact that equity earnings are taxable but the return on debt (ie, interest expense) is deductible for tax purposes. As the allowed return on equity is an after-tax return, the regulatory building blocks must include a tax allowance.

The net tax liability is therefore the amount of revenue that must be allowed such that, when tax is levied on the total taxable income, the remaining after-tax amount is equal to the allowed return on equity. As this requires a revenue allowance to be provided for the payment of tax, on which tax must be paid, there ensues a “tax on tax” multiplier effect calculated at a rate of $t/(1-t)$. For \$100 of after tax income to be

¹² Referring to the Reserve Bank of Australia data series FCMYGBAG10D and FCMYGBAG10 in files f02D and f02hist respectively.

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earned, allowed taxable income must be $[\$100 + \$100 \times (30\% / (1 - 30\%))]$ \$142.86, the tax on which is $(\$142.86 \times 30\%)$ \$42.86, leaving after-tax revenue of \$100.00.

In an Australian regulatory context, this is further affected by the application of imputation credits by a factor representing the estimated value of imputation credits, known as gamma (γ). The tax-on-tax multiplier is then calculated as $t / (1 - (1 - \gamma)t)$. This approach is applied in the AER's Post Tax Revenue Model (PTRM).

The tax calculation is also impacted by the difference between the regulatory depreciation included in the revenue cost stack and the tax depreciation calculated in the AER's Roll Forward Model. The reported Net Tax Liability therefore represents a "tax payable" rather than a "tax expense" amount.

More specifically, the net tax liability has been calculated as shown in the following example (MSP 2020, \$000):

Opening capital base	\$1,472,481	
Less: capital contributions	-\$0.451	
Less: disposals	-\$0.023	
Net opening capital base	\$1,472,008	
Proportion deemed funded by equity	40%	
Capital base deemed funded by equity	\$588,803	
After tax rate of return on equity	5.05%	
After tax return on equity		\$29,711
Timing differences:		
Add: Regulatory depreciation ¹³	\$44,122	
Less: Regulatory tax depreciation	-\$64,977	
Net timing differences		-\$20,855
Regulatory taxable income		\$8,856
Tax allowance:		
Statutory tax rate (t)	30%	
Value of imputation credits (γ)	0.585	
Effective tax rate $[t / (1 - (1 - \gamma)t)]$	34.27%	
Tax allowance	\$3,035	
Less: Value of imputation credits	-\$1,775	
Net tax liabilities		\$1,259
Regulatory taxable income		\$10,115
Proof:		
Taxable income		\$10,115
Less: tax at 30% statutory tax rate		-\$3,035
Value of imputation credits		\$1,775
After tax income		\$8,856
Add: Net timing differences		\$20,855
After tax return on equity		\$29,711

Table 1.1.1 Financial Summary applies the same tax liability from Row 15 of the template to both the Building Block revenue calculation on Row 22 and to the RCM calculation in Row 31 (where applicable). However, the foundations of the Building

¹³ Note that this is impacted by the indexation of the regulatory asset base.



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Block Revenue calculation and the RCM calculation are sufficiently different that one would not expect the same tax liability to be produced by these two different approaches.

In particular, the Building Block Revenue approach calculates a return on capital applied to an indexed, straight-line depreciation asset base. The RCM calculation, in contrast, calculates a return on capital based on an historical cost asset base that has been subject to a cash flow based return of capital.

Where applicable, we have amended the template to report the Net Tax Liability in the RCM section of the Financial Summary as drawn from the RCM calculation on Tab 4. This will differ from the Net Tax Liability reported in the Building Block Revenue section.