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November 11, 2022

financial reporting guideline for non-scheme pipelines

basis of preparation

Contents

1 introduction

In August 2017, the Council of Australian Governments (COAG) Energy Council introduced a new Information Disclosure and Arbitration Framework to apply to gas pipelines that were not subject to other economic regulation. These pipelines are referred to as 'non-scheme' pipelines, and the framework was implemented through a new Part 23 to the National Gas Rules.

The Objective of the Scheme, as stated in Part 23 of the National Gas Rules, is as follows:

> (1) The objective of this Part is to facilitate access to pipeline services on non-scheme pipelines on reasonable terms, which, for the purposes of this Part, is taken to mean at prices and on other terms and conditions that, so far as practical, reflect the outcomes of a workably competitive market.
>
> (2) This Part is intended to contribute to achieving the objective in sub rule (1) by means of:
>
> > (a) requirements for the publication and exchange of information to facilitate timely and effective commercial negotiations in relation to access to non-scheme pipelines;
> >
> > (b) a commercially-orientated arbitration process to resolve access disputes in a cost-effective and efficient manner; and
> >
> > (c) principles that the arbitrator must have regard to when determining access disputes, which are consistent with the outcomes of a workably competitive market.

As part of the information disclosure requirements, pipeline service providers must publish specific financial information in accordance with a Financial Reporting Guideline developed by the relevant regulator.

The Australian Energy Regulator (AER) and the Western Australia Economic Regulation Authority (ERA) have prepared Financial Reporting Guidelines as required under Rule 557. These Guidelines are, in all material respects, aligned.

This Basis of Preparation should be read in conjunction with those Guidelines and Part 23 of the National Gas Rules.

The AER and ERA Guidelines create a new Special Purpose Financial Reporting Framework which differs in significant ways from the statutory reporting framework defined by Australian Accounting Standards. Because of these differences, the information produced under Part 23 will not reconcile to the majority of financial information prepared by the Service Provider under Australian Accounting Standards.

Part 23 requires reporting in three distinct categories:

1. Pipeline Financial Information, which complies with Australian Accounting Standards, except where the Guideline provides a methodology that is not consistent with Australian Accounting Standards;
2. An asset valuation under the Recovered Capital Method; and
3. Weighted average price information.

This Basis of Preparation document applies to the following non-scheme pipelines and Service Providers:

Pipeline	Pipeline Location	Service provider
Berwyndale Wallumbilla Pipeline	East Coast	APT Pipelines Investments (BWP) Pty Ltd
Eastern Goldfields Pipeline	West Coast	APA Operations Pty Ltd
Goldfields Gas Pipeline	West Coast	Goldfields Gas Transmission Pty Ltd
Moomba Sydney Pipeline	East Coast	East Australian Pipeline Pty Ltd
Murrin Murrin Lateral Pipeline	West Coast	APA Operations Pty Limited
Parmelia Gas Pipeline	West Coast	APT Parmelia Pty Ltd
Pilbara Pipeline System	West Coast	APA (Pilbara Pipeline) Pty Ltd
South East South Australia Pipeline	East Coast	APT Pipelines (SA) Pty Ltd
South West Queensland Pipeline	East Coast	APA (SWQP) Pty Ltd
Wallumbilla Gladstone Pipeline	East Coast	APA WGP Pty Ltd

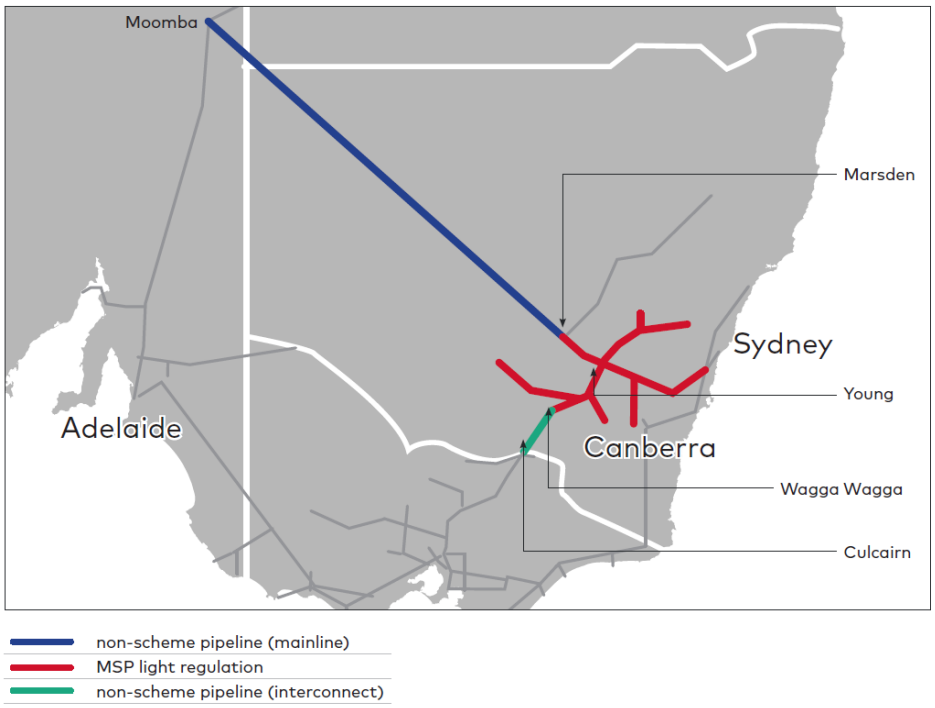
1.1 pipeline-specific information

1.1.1 Moomba Sydney Pipeline

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

For regulatory purposes, the MSP consists of:

- a non-scheme pipeline from Moomba to Marsden (marked blue on the MSP map below);
- a light regulation (i.e. 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 (interconnector) between Wagga Wagga and Culcairn (marked green on the MSP map below).



A strict application of the Financial Reporting Guideline for Non-Scheme Pipelines would require reporting of the Moomba-Marsden pipeline and the Wagga-Culcairn interconnect as separate pipelines, and no reporting for the light regulation section serving Canberra, Wagga Wagga, Lithgow, etc.

APA considers that preparing these reports for only the non-scheme components of the MSP presents scope for misunderstanding, as this is not consistent with the way customers contract for gas transportation on the MSP. APA has therefore presented this information for the whole pipeline system as if it was fully subject to Non-Scheme regulation, resulting in financial information, including weighted average prices, being consistent with the way in which customers contract on the MSP and therefore more consistent with the intent of the Non- Scheme financial reporting and guidelines.

The AER has provided a No Action advice confirming this approach under the Non-Scheme and Light regulation framework.

The calculation of the Recovered Capital Value for MSP includes related party payments and a related party contract close out payment during 2004 – 2012 (totalling around $128 million). Part of the payment associated with the pipeline management agreement buyout was approved by the AER as conforming capital expenditure in the 2012 RBP access arrangement (refer to Appendix C of the AER Final Determination).

1.1.2 Goldfields Gas Pipeline

The Goldfields Gas Pipeline is owned through a joint venture arrangement, with two APA companies (Southern Cross Pipelines Australia Pty Ltd and Southern Cross Pipelines (NPL) Australia Pty Ltd) and Alinta Energy GGT Pty Ltd as the joint venturers. The reporting Service Provider nominated by the joint venturers is the pipeline operator, Goldfields Gas Transmission Pty Ltd.

While the Goldfields Gas Pipeline is covered (i.e. a scheme pipeline) and subject to a full access arrangement drafted and approved by the WA Economic Regulation Authority, the Goldfields Gas Pipeline also includes some capacity which is not covered by the gas access regime (the "uncovered capacity"), which is subject to reporting under Part 23 of the Rules.

While the operator has access to all relevant information on capital and operating expenditure in respect of the uncovered capacity, it has no information regarding the revenues earned by all of the joint venturers or on the tax position of the joint venturers.

For the reporting period, revenue information was provided by the Southern Cross companies and Alinta Energy.

In the preparation of the financial information under this Guideline, the operator has estimated the historical revenue earned by Alinta from the provision of pipeline services using the uncovered capacity for the purposes of the Recovered Capital Method asset valuation. This estimate was based on the amount of uncovered capacity attributable to Alinta over the relevant period and an estimate of prevailing gas transportation tariffs in the market at the relevant time. While this estimate is unlikely to be precisely accurate, any inaccuracy is unlikely to have any material impact on the Recovered Capital Method asset value as at 30 June 2022.

1.1.3 Parmelia Gas Pipeline

The Parmelia Gas Pipeline consists of a mainline, which is subject to Part 23 reporting, and a number of laterals, for which Part 23 reporting exemptions have been granted.

However, the opening regulatory asset value and the subsequent underlying accounting records are insufficiently granular to reasonably differentiate all assets, revenues and costs between the mainline and the various laterals. The Recovered Capital Method asset valuation for the Parmelia mainline includes all capital costs, revenue and operating expenditure attributable to the laterals. APA considers that this will not materially misstate the RCM asset value of the Parmelia mainline. As the laterals generally serve single customers, Weighted Average Prices have not been reported for the exempt laterals.

1.2 rounding

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

1.3 updates

As this Basis of preparation serves as the basis of preparation for the last 7 years of financial reporting published on APA's website, this section will highlight any updates to prior years reporting.

1.3.1 FY22 published information in October 2022

(1) Negative residual values

For the October 2022 reporting, corrections were made to the negative residual values for RCM purpose for the Berwyndale Wallumbilla Pipeline, Moomba Sydney Pipeline, Parmelia Gas Pipeline and Wallumbilla Gladstone Pipeline.

Negative residual values (NRV) for RCM purposes were first reported in the year ended 30 June 2021, following the establishment of pipeline specific estimation processes in the reporting period. Management estimated the costs of undertaking the necessary decommissioning costs as if these activities were undertaken in the relevant year's costs and legislated environmental requirements.

The negative residual values and the RCM value as at 30 June 2021 reported in October 2021 were misstated in Table 4.1.

The misstatement was due to an inconsistent methodology applied for the calculation of negative residual value for the Pipeline's outlined below relative to the other Pipeline's owned by APA.

In October 2022, the NRVs and RCM values pertaining to the year ended 30 June 2021 has been corrected in Table 4.1.

The NRV error did not have a material impact on the previously published RCM calculations – the previously published numbers are not false or misleading in any material way.

For further information please refer to worksheet 6 of the relevant pipeline's template.

(2) Payroll review

APA Group

In FY22, the first stage of a historical payroll review was conducted which identified that certain employees across the APA Group were not paid in full compliance with obligations under APA's enterprise agreements. A provision of $32 million (which related to a 7 year period) was recorded in connection with the payroll review.

For financial accounting purposes, the Group Statutory financial information (FY21 and retained earnings) was restated to account for the impact of the payroll review.

Part 23 Reporting

For Part 23 reporting purposes, the cumulative payroll adjustment for all years was accounted for in FY22 and prior periods were not restated. The payroll adjustment has been allocated to individual pipelines based on a combination of direct costs attributable to pipelines and where the cost was not directly attributable, based on relevant non causal driver.

APA has concluded that the amounts charged to the profit or loss in FY22 relating to prior periods had no material impact for Part 23 Financial reporting purposes. On that basis, APA has not restated the prior period comparative amounts in the 'Statement of Pipeline Revenue and Expenses' and the 'Recovered Capital Method'. For further information refer tab 6. Notes for each pipeline.

(3) Deferred Tax Asset

For the October 2022 reporting, a correction was made to the template of the Parmelia Gas Pipeline to report a deferred tax asset as at FY21 of $5,255,111, in table 3.1 Statement of pipeline assets.

The misstatement did not have a material impact on the previously published calculations - the previously published numbers are not false or misleading in any material way. As such the previously published information has not been restated.

1.3.2 FY21 published information in October 2021

Amended reporting template

For the October 2021 reporting, AER and ERA amended the reporting templates to include a Summary worksheet which auto fills grey cells from within the reporting template. This worksheet has no assurance requirements.

Further changes were made by the AER and ERA to the revenue tables on worksheet 2 and 2.1. This resulted in previously reported revenue as part of table 2.1.1 being reclassified to table 2.1 to ensure compliance with the latest reporting requirement (such as park services).

2018-2020

Table 2.1: Statement of pipeline revenues and expenses

Basis of Preparation reference	Description
	Direct revenue
2.3.1 & 2.3.1.1	Total service revenue
2.3.1	Other direct revenue
	Total direct revenue
	Indirect revenue allocated
2.3.1	Other revenue
	Total indirect revenue allocated
	Total revenue

2021 ->

Table 2.1: Statement of pipeline revenues and expenses

Basis of Preparation reference	Description
	Direct revenue
2.3.1 & 2.3.1.1	Total service revenue
	Customer contribution revenue
	Government contribution revenue
	Profit from sale of fixed assets
2.3.1	Other direct revenue
	Total direct revenue
	Indirect revenue allocated
2.3.1	Other revenue
	Total indirect revenue allocated
	Total revenue

2018-2020

Table 2.1.1: Revenue by service

Basis of Preparation reference	Description
	Direct revenue
2.3.1 & 2.3.1.1	Firm forward haul transportation services
2.3.1	Interruptible or as available transportation services
2.3.1	Backhaul services
2.3.1	Firm stand-alone compression service
2.3.1	Interruptible or as available stand-alone compression service
2.3.1	Park and park and loan services
2.3.1	Capacity trading service
2.3.1	In pipe trading service
2.3.1	Distribution/transmission revenue
2.3.1	Customer contribution revenue
2.3.1	Profit from sale of fixed assets
2.3.1	Other direct revenue
	Total direct revenue

2021 ->

Table 2.1.1: Revenue by service

Basis of Preparation reference	Description
	Revenue by service
2.3.1 & 2.3.1.1	Firm forward haul transportation services
2.3.1	Interruptible or as available transportation services
2.3.1	Backhaul services
2.3.1	Firm stand-alone compression service
2.3.1	Interruptible or as available stand-alone compression service
2.3.1	Park services
2.3.1	Park and loan services
2.3.1	Capacity trading service
2.3.1	In pipe trading service
2.3.1	Other pipeline services (if relevant)
	Total service revenue

Furthermore, deferred revenue amortisation under AASB 15 (significant financing component), recoverable works and relocation works previously classified as customer contribution in table 2.1.1 is from FY21 onwards classified as 'Other direct revenue' in table 2.1. For further information refer section 2.3.1 of this Basis of Preparation.

Change in accounting policy – Software-as-a-Service arrangements

APA Group

During the year ended 30 June 2021, APA Group revised its accounting policy to account for configuration and customisation costs incurred in implementing SaaS arrangements as an operating expense within profit or loss in response to the IFRS Interpretations Committee's ("IFRIC") Agenda Decision published in April 2021 related to accounting for Software-as-a-Service ("SaaS") arrangements.

APA Group has implemented the IFRIC Agenda Decision retrospectively as a change in accounting policy and historical Group Statutory financial information (FY20 and FY19) was restated to account for the impact of the change in accounting policy.

Part 23 reporting

Any previously capitalised implementation cost related to SaaS arrangements have been de-recognised in FY21 and recorded as a decrease to the allocation of shared support assets and an increase in FY21 shared support expenditure.

Included in the shared support expenditure in the profit or loss in FY21 were implementation costs relating to prior periods that were capitalised and recognised in property, plant and equipment prior to 30 June 2020. APA has concluded that the amounts charged to the profit or loss in FY21 relating to prior periods had no material impact on APA's current nor prior year Part 23 Financial reporting. On that basis, APA has not restated the prior period comparative amounts in the 'Statement of Pipeline Revenue and Expenses' nor the 'Recovered Capital Method'. For further information refer tab 6. Notes for each pipeline.

1.3.3 FY20 published information in October 2020

As discussed in section 3.2.4, APA has applied a benchmark cost of debt in the RCM calculations, as advised by an independent expert consulting firm. In the process of preparing the 2020 RCM information, the independent expert advised APA that there was a translation error in their calculations, which impacted the advised historical cost of debt. Based on the revised cost of debt inputs, the RCM values have been corrected in the 2020 reporting.

The revised cost of debt materially impacted Pilbara Pipeline System's (PPS) previously reported RCM values. The 2018 and 2019 reporting was re-published on APA Group's website in October 2020 in accordance with Rule 551. For the other pipelines, the impact on the previously published RCM calculations was immaterial. The RCM values were updated in FY20 and were not re-issued for prior years other than PPS due to immateriality. Further information can be found in the tab 6 for the FY20 reporting of each pipeline template.

1.4 requirement to publish financial information

The financial reporting for non-scheme regulation is an annual reporting requirement for APA's non-scheme pipelines, requiring annual publishing by 31 October. To ensure compliance with the regulatory requirements APA has presented the published dates below:

Reporting Year	Date published	Revised reporting published
2022	11 November 2022[1]	
2022	31 October 2022	
2021	1 November 2021	
2020	30 October 2020	
2019	31 October 2019	12 December 2019 for all assets, RCM republished 30 Oct 2020[2]
6 month period ended 30 June 2018	31 October 2018	

[1] The AER has granted APA to publish the FY22 financial reporting by 11 November 2022 for the East Coast pipelines.
[2] RCM values were republished in October 2020 only for PPS.

2 pipeline financial information

2.1 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 used to prepare APA's audited consolidated financial statements. These Statutory financial statements are prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (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.

Financial information extracted from the APA Oracle financial system 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 AAS.
- **Operating direct costs:** APA's operating cost categories are in line with the categories identified in the section 3.1.1.2 of the Guideline.
- **Assets:** Fixed asset opening cost bases and capital additions for the pipeline financial information are consistent with statutory financial reporting requirements.

APA has, for these reporting purposes, allocated corporate expenditure and shared support assets (shared support assets and right of use assets) to each asset in APA's portfolio based on a revenue allocation method. Refer to Section 2.3.2.2 for further details.

2.2 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 statements except for revenue categorisation, operating and shared corporate expenditure and shared support assets.

Financial information for each non-scheme pipeline 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 the non-scheme pipeline which, consistent with the Guideline, reflects the acquisition value of the pipeline to the owners of the Service providers.

There are instances where the reporting of non-scheme pipelines does not align with legal entity reporting. In these instances, the financial information provided is generally supported by APA's management reporting, and the information has been further verified through underlying customer contracts, customer correspondence, third party operating agreements, direct costs and detailed reviews of invoices and asset registers as relevant.

The Statements including RCM and WAP information have been prepared on the basis of corporate costs and shared supporting assets being allocated based on a revenue allocator (all

assets except Wallumbilla Gas Pipeline (WGP)) in line with discussions with the Australian Energy Regulator.Further information on the RCM, Statement of revenue and expenses and Statement of Pipeline Assets (the Statements) is disclosed on Tab 6 for the relevant assets. This approach was adopted for the restated FY19 Part 23 financial information, published in December 2019.

The *Statement of Pipeline Revenue and Expenses* and *Statement of Pipeline Assets* for each non-scheme pipeline has been audited by APA's external auditor, Deloitte Touche Tohmatsu, in accordance with the Australian Auditing Standards. The RCM and WAP have been reviewed and subject to a review conclusion by Deloitte.

2.2.1 Maintaining information

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

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

- All base financial information will be extracted from APA's financial systems;
- APA's statutory financial statements and associated accounting records will form the basis of the 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 year's submission; and for the subsequent regulatory years, for at least 7 years from the date of the respective submission.
- The non-scheme financial reporting templates will remain on APA's website for five years.
- All records will be available to independent auditors and the AER.

These records will be maintained to:

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

2.3 statement of pipeline revenue and expenses

2.3.1 revenue

In accordance with AAS, revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the provision of services to a customer (the performance obligations) under a contract. APA Group 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 APA Group's services there is no significant right of return or warranty provided. Direct revenue is derived from transportation services.

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 gas transportation agreement (GTA) 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. The revenue within APA is recorded in the service provider.

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.

Customer contribution revenue reported in table 2.1 and Customer Contributions reported in table 2.2.1 represents revenue in instances where a customer with an underlying GTA contributes to the capital expenditure of the pipeline.

All other instances of revenue are reported as Other direct revenue in table 2.1 on worksheet 2. The types of revenue reported as Other direct revenue in table 2.1 is the amortisation of a significant financing component under AASB 15, finance lease income, relocation works and recoverable works as well as sundry and rental income.

Service providers must publish details of contributions made by customers or governments that are included in the reported revenues. Customer contribution definition in table 2.2.1 (from FY21 onwards) represents revenue in instances where a customer with an underlying GTA contributes to the capital expenditure of the pipeline.

Within the reporting, deferred revenue and or revenue for recoverable works represents money received upfront for capital works under a separate contract and not in accordance with a GTA. Such revenue is included in worksheet 2 as Other direct revenue.

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 2.3.1.2 below.

Pipelines with contracted revenues denominated in foreign currencies are translated in accordance with the requirements of Australian Accounting Standards.

Significant Financing component under *AASB 15 Revenue from contracts with customers*

AASB 15 *Revenue from Contracts with Customers* ("AASB 15") was effective from 1 July 2018 for APA. This standard requires revenue to be recognised as a significant financing component in those circumstances where there is a period of more than 12 months between the payment for the service by the customer and fulfilment of the performance obligation by APA. A significant financing component has been identified in some revenue contracts on Part 23 assets.

AASB 15 requires reporting of the time value of money as an increase of Revenue including a separate disclosure of interest expense from revenue from contracts with customers.

APA has in its consolidated statutory financial statements reported the significant financing component in accordance with AASB 15 and as a result revenue is inclusive of the time value component. A corresponding, almost equal amount is recorded as interest expense for statutory reporting purposes.

Significant financing component in the Statement of Pipeline Revenue and Expenses

The Guideline requires compliance with the AASB revenue recognition principles however the Guideline prohibits the inclusion of interest expenses.

As a result, the Significant Financing Component has been included in the reported revenue in Statement of pipeline revenue and expenses however without the corresponding interest expense.

Therefore the profit and return on asset calculations (table 1.1.1) for the relevant pipelines is overstated in comparison to the statutory financial results on an asset by asset basis since the Guideline prohibits the inclusion of interest expense in the statement of pipeline revenue and expenses.

The AASB 15 significant financing component impact on the Pipeline financial information is related to the following assets – uncovered part of GGP, PGP, PPS and SWQP. Further information has been disclosed in the relevant Notes in tab 6 for the impacted pipelines.

Significant financing component reporting in the Recovered Capital Methodology calculation

The significant financing component in revenue has been included in the RCM information. The corresponding interest expense was excluded from the RCM.

2.3.1.1 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.

Multi Asset Services are not reported as related party transactions.

Related Party Revenue % of total revenue	=	$ Total related party Revenue	/	$ Total revenue for the Asset

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

Related Party Opex $	=	Related party Revenue % of total revenue	*	$ 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.

2.3.1.2 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 regulation[3]), 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 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 in particular, the non-scheme and other 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.

Inter-entity revenue associated with a multi-asset contract has been allocated to Interruptible/As Available/Authorised Overrun transport services. The portion of revenue attributed to the service provider is reported as direct revenue in Table 2.1 of the reporting template.

2.3.2 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 provide 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 directly attributable cost;

[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.

- costs are allocated on a causal basis, in instances where direct attribution is not possible.

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 non-scheme 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 non-scheme pipelines and the employees who are solely dedicated in providing field services to the non-scheme pipeline.

- **other directly attributable costs**: Other expenses are costs directly attributable to the assets and are incurred by APA's Operations business[4]. In order to give a true reflection of the cost of running an asset, it is necessary to allocate a portion of APA's Operations costs to the asset. APA's Operations 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 non-scheme and regulated 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 non-scheme pipeline, reflective of time spent.

- customer based - national cost centres that provide transmission services such as daily nominations, invoicing and billing allocate their costs based on the number of customers or number of contracts.

- headcount based - national services such as human resources training and Development; and facilities recharges are allocated to the business based on the overall headcount in the business.

- state based - national services such as health, safety 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.

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 2.3.2.2.

Based on historical performance APA believes a revenue based driver is appropriate for allocating shared corporate expenditure as the services provided by means of shared expenditure are necessary for the generation of revenue. That is, a causal relationship exists between revenue generation and corporate overheads. The Australian Competition and Consumer Commission

[4] Operations Division is responsible for the management of APA Group's Transmission, Power, Networks and Midstream infrastructure assets, including all aspects of commercial and operational performance.

(ACCC) and the AER have previously accepted the revenue as an appropriate allocator for shared corporate expenditure in relation to the Murraylink asset.

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 2.4.6.

Bad debt expense has been classified as operating expenditure.

2.3.2.1 depreciation expense

Depreciation expense for each non-scheme pipeline has been calculated in line with the standard lives as set out in Appendix A (AER) or 1 (ERA) of the respective Guidelines.

Depreciation of the leased assets and the Right of use asset (RoU asset) in the statement of pipeline revenue and expenses and the statement of Pipeline Assets respectively is in line with statutory reporting and the revised AER templates.

2.3.2.2 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 non-scheme 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 statements to each asset in APA's portfolio based on the process described below:

1. APA identifies shared corporate expenditure which is 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 WGP. Recognising this, APA has only allocated treasury and accounting related expenditure, and other related costs of these services to 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.

For Goldfields Gas Pipeline (GGP), corporate costs are further allocated between the covered and the uncovered portion based on relative capacity utilisation.

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

Interest expense from shared leased assets as well as shared leased asset depreciation 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.

2.4 statement of pipeline assets

2.4.1 asset valuation principles

Consistent with section 2.3.2 above, all capital is captured in the Oracle financial reporting system through cost centre and project reporting. Capital costs are recognised in accordance with *AASB 116 Property, Plant and Equipment (AASB 116)*. Once it has been determined that it is appropriate to capitalise the costs, they have been attributed directly to the non-scheme pipeline via the cost allocation drivers described in section 2.3.2.

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

The asset values in the *Statement of Pipeline Assets* have used the depreciated book value method, which is consistent with Australian Accounting Standards. The asset values represent historical/acquired cost, plus capital expenditure, less disposals, less accumulated impairment and less depreciation based on the asset lives identified in Appendix A of the Guideline adopted at inception.

No revaluations of the asset base have been included in the *Statement of Pipeline Assets*.

2.4.2 capitalisation principles

Construction, acquisition, major maintenance and asset replacement costs are capitalised in accordance with AASB 116 in each trial balance. For statutory reporting, for the purposes of constructing Property, plant and equipment, an asset is capitalised as capital work in progress when incurred. When the asset is commissioned, it is reclassified into the fixed asset register and statutory depreciation commences. Any capital work in progress at period end is reported in the *Statement of Pipeline Assets* as "Other non-depreciable assets".

Consistent with AASB 116, 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 in accordance with the Capitalisation policy and AASB 116:

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

In addition to directly attributed capital expenditure and other attributable costs, each pipeline has been allocated a portion of the shared support assets using a transmission revenue based allocator, consistent with prior periods. Refer section 2.4.5 for further details.

2.4.3 depreciation principles

Depreciation has been calculated consistently based on the asset lives principles in section 3.2.3 of the Guideline.

The asset lives for the leased assets is equal to the reasonably certain lease term for each type of assets class (motor vehicles, property leases and access leases). Due to the various lease terms the weighted asset lives vary.

For non-pipeline asset classes, APA has applied depreciation principles in line with statutory reporting, which is in accordance with Australian Accounting Standards.

2.4.4 carrying value review principles

APA tests reported book values of property, plant and equipment, intangibles and goodwill for impairment annually. Assets other than goodwill that have previously reported an impairment are reviewed for possible reversal of the impairment at each reporting period.

It is noted that the Part 23 Carrying Value review has been undertaken using Part 23 assumptions and by definition this review is separate to the Carrying Value Review undertaken for APA's Statutory Financial Reporting. The values are not to be considered in the context of APA's statutory financial reporting processes.

The Part 23 Carrying value Review is completed using different assumptions to APA's statutory Carrying Value review and is undertaken on an individual standalone pipeline rather than a cash generating unit basis, and does not reflect APA's view of carrying value of its assets for statutory purposes. Different assumptions are used in relation to:

- Forecast revenue, to exclude the covered portion of revenue for GGP;
- The use of a different discount rate relative to statutory Carrying Value Review up until FY21; and
- The useful life of the assets for Part 23 carrying value purposes are based on the lives as set out in Appendix A.

Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell or value-in-use.

The recoverable amounts for each asset are determined based on value-in-use calculations. These calculations use cash flow projections based on a 3 year budget and 17 year forecasts from the financial model inclusive of appropriate terminal values using pre-tax cash flows consistent with APA statutory method. This is consistent with APA Group's forecasting and planning processes which represents the underlying long term nature of associated customer contracts on these assets.

In the instance of an impairment for Part 23 purposes this has been further disclosed on Tab 6 and displayed in table 3.2.1 of the reporting template.

2.4.5 shared support assets

APA's shared support assets consist of corporate property, plant and equipment, IT assets and software and is in the financial reporting template reported in the category as Shared Property Plant and Equipment. APA does not allocate its total shared support assets among its pipelines and other operations, in the APA Oracle financial system for statutory reporting purposes.

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 2.3.2.2) 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 3.4.1 of the reporting template.

Shared leased assets

Shared leased assets represents shared assets such as leased 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 to section 2.4.6.

2.4.6 AASB 16 Leases

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

APA has reported leases in accordance AASB 16 and the reporting template reporting requirements.

On adoption of AASB16 as at 1 July 2019, the net written down value (WDV) of the Right of Use (RoU) asset was reflected 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

The Part 23 reporting has complied with 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 Statement of Pipeline Assets with the RoU gross asset values at cost. At period end the WDV of the RoU assets is presented.

The pipelines subject to the Part 23 reporting may not report a portion of a directly attributable leased asset but all pipelines incur a portion of shared leased assets.

The AASB 16 directly attributable RoU impact on the Pipeline financial information is related to the following assets - GGP uncovered part, MSP, MML, SESA, PGP, PPS and SWQP.

AASB 16 reporting in the Recovered Capital Methodology calculation

For FY20, 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 the lease liability 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.

3 asset value determined using the recovered capital method

3.1 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.

3.2 sources of information

While some of the required information can be drawn from published financial information, some cannot be observed, and consistent with section 4.1 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.

3.2.1 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

For assets 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 have been recorded at gross historical cost to avoid double counting (book and RCM) depreciation.

3.2.2 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's acquisition, revenue and operating expenditure has been derived from financial information provided by the previous service provider(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 worksheet 6 of the reporting templates for each non-scheme 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 Part 23 of the Rules and the Guideline, 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 a 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, 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.

For Part 23 reporting purposes, APA has reported its shared support costs by applying a relevant allocation method inclusive of adjustments to revenue. Refer to Section 2.3.2.2 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.

3.2.3 shared support assets

APA does not allocate its shared support assets (shared IT systems, etc.) at the consolidated level in the audited financial statements.

For statutory purposes, APA does not allocate its shared support assets amongst any of its pipelines or business operations, in the Oracle financial system.

However as APA's 'shared support assets' provide benefits to all APA's pipelines and other business operations, for regulatory purposes APA notionally allocates its 'shared support assets' amongst its operations, including its light regulated pipelines.

To determine the value of the shared support assets attributable to each service provider/business operation, APA has adopted the same ratio of attributed shared corporate expenditure to total APA corporate costs for the reporting period:

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

An allocation of shared support assets 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 is reported in Table 3.4.1 of the reporting template.

3.2.4 return on capital

The Guideline requires that the return on capital: [AER and ERA p20]

> *… should be determined for each year and should be commensurate with the prevailing conditions in the market for funds and reflect the risks the service provider faces in providing pipeline services.*

The return on capital to be reported in accordance with this Guideline cannot be read from the published financial statements; it must be estimated using reasonable input parameters and assumptions as outlined below.

The return on capital has been calculated for each non-scheme pipeline on a stand-alone basis. This approach is consistent with the requirement in Section 3.3 of the Guideline [AER p17, ERA p18]:

> *Return on assets is to be provided on a standalone pipeline basis.*

capitalisation

In estimating the return on capital for the purposes of the RCM calculation, it is necessary to assume a level of debt and equity capitalisation.

The reported RCM calculations assume that the total capital held by the business in any given year equals the opening value of the RCM capital base plus half the current year capital expenditure. This cannot be read from the statutory financial statements, even where the business is a single asset service provider.

For example, where an asset has been acquired, the amount of debt and equity capital financing held by the business would be expected to reflect the acquisition cost of the asset. It is likely that the amount of capital held by the business would differ from the value of the capital base as reported under the RCM.

capital structure

APA has sought the professional advice of an expert firm in the financial services sector, to advise on the appropriate capital structure for a business of equivalent size to each non-scheme pipeline.

This analysis reflects that such a business may not have access to global capital markets, and that local lenders may require a greater proportion of equity to be provided by each individual reporting entity. This capital structure analysis is integrated with the cost of debt analysis.

In any given year, the outstanding amounts of debt and equity sum to the running total opening capital base as calculated to date under the RCM, plus the current year's capital expenditure.

The original construction cost is considered to be funded according to the expert firm's recommended capital structure. However, the capital structure may be amended through the RCM analysis. In particular, where the RCM asset valuation shows a revenue shortfall,[5] this shortfall is modelled to be made up by additional contributions from equity holders rather than by additional borrowing (following the well accepted principle that lenders will not finance losses). New capital expenditure is assumed to be funded by the proportions of debt and equity in line with the expert's study. Capital expenditure earns a half-year return in the year incurred.

return on debt

A market interest rate was determined by an expert firm in the financial services sector, reflecting the opportunities for a business such as the service provider to raise capital, including any adjustments to the gearing ratio that may be required. This analysis allowed a market return on debt to be estimated, having regard to the observed spread above a well-reported swap rate and a premium applied for smaller size and single-asset businesses. The expert firm has calculated a cost of debt for all years included in the RCM analysis.

return on equity

The return on equity has been estimated using the Capital Asset Pricing Model (CAPM):

$$R_e = R_f + \beta (R_m - R_f)$$

Where:

R_e	is the Return on equity in the relevant year;
R_f	is the Risk Free Rate in the relevant year;
β	is Beta, a measure of the risk of the asset relative to the market; and
(R_m-R_f)	is the "Market Risk Premium".

historical data set

The data set used to estimate the R_f component for historical years is that developed by Brailsford, Handley and Maheswaran (2012)[6] as updated to 2018.

beta

The service provider adopts a beta value of 1.0, reflecting the risks the service provider faces in providing pipeline services as a single-asset unregulated pipeline business, subject to the market and the market of its customers.

[5] AER and ERA Financial Reporting Guidelines p20: "Note that under the recovered capital method, if a service provider has not generated sufficient revenue to recover the operating expenditure, return on capital and net tax liabilities in a year, then the return of capital value will be negative, which will increase the value of the capital base."

[6] Tim Brailsford, John C. Handley, and Krishnan Maheswaran. (2012) "The historical equity risk premium in Australia: Post-GFC and 128 years of data" Accounting and Finance, 52 (1), 237-247.

market risk premium

A market risk premium of 6.5% has been applied in the Capital Asset Pricing Model as described above. This is consistent with the standard market accepted risk premium over the reporting period.

return on equity

The calculated return on equity is applied to the "running total" opening RCM capital base multiplied by the equity ratio (as discussed under "capital structure" above).

3.2.5 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. 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.

3.2.6 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.

Negative residual values reflect the costs to be incurred by a pipeline at end of life, including decommissioning, site restoration and environmental reclamation costs. As these costs must ultimately be recovered through revenue over the life of the pipeline, the Recovered Capital Method (RCM) provides for the RCM value to include an allowance for negative residual values.

FY21 published information

Negative residual values for RCM purposes were first reported as at 30 June 2021, following the establishment of pipeline specific estimation processes. Management estimated the costs of undertaking the necessary decommissioning costs as if these activities were undertaken in the relevant year's costs and legislated environmental requirements. These amounts were then deflated by actual inflation to derive the amount to be recorded at the time of pipeline construction. This inflation allowance is reflected as part of the annual adjustment to the reported negative residual value amount, such that the total reported negative residual value reflects the relevant period's cost estimate.

FY22 onward published information

Going forward, the reported amount will be adjusted for indexation by actual CPI, and also for any future re-assessments of pipeline decommissioning costs, which would reflect any future changes in relevant environmental legislation or regulation.

3.3 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.

Further detail in relation to estimates for a particular non-scheme pipeline are provided in Tab 6 of the reporting templates applicable to that non-scheme pipeline.

3.4 updates

3.4.1 Update – 2022 published information

Negative residual values

For the October 2022 reporting, corrections were made to the negative residual values for RCM purpose for the Berwyndale Wallumbilla Pipeline, Moomba Sydney Pipeline, Parmelia Gas Pipeline and Wallumbilla Gladstone Pipeline.

Negative residual values (NRV) for RCM purposes were first reported in the year ended 30 June 2021, following the establishment of pipeline specific estimation processes in the reporting period. Management estimated the costs of undertaking the necessary decommissioning costs as if these activities were undertaken in the relevant year's costs and legislated environmental requirements.

The negative residual values and the RCM value as at 30 June 2021 reported in October 2021 were misstated in Table 4.1.

The misstatement was due to an inconsistent methodology applied for the calculation of negative residual value for the Pipeline's outlined below relative to the other Pipeline's owned by APA.

In October 2022, the NRVs and RCM values pertaining to the year ended 30 June 2021 has been corrected in Table 4.1.

The NRV error did not have a material impact on the previously published RCM calculations – the previously published numbers are not false or misleading in any material particular.

For further information please refer to worksheet 6 of the relevant pipeline's template.

Deferred Tax Asset

For the October 2022 reporting, a correction was made to the template of the Parmelia Gas Pipeline to report a deferred tax asset as at FY21 of $5,255,111, in table 3. Statement of pipeline assets.

APA Group considers that this misstatement is not material as the ROA reported for FY21 was lower than what should have been reported. As such the previously published information has not

been restated. For further information please refer to worksheet 6 of Parmelia Gas Pipeline template.

3.4.2 Update – 2021 published information

Regarding the treatment of the half-year WACC on current year capex:

Australian regulatory practice provides for a return on capital to be applied to capex as incurred. Assuming that assets are brought into service evenly throughout the year, a "half-year WACC" is capitalised in the asset value, providing for financing costs between the time an asset is brought into service and the start of the next regulatory year, in which a return on the in-service asset is provided.

For RCM reporting prior to FY21, APA reported this "half-year WACC" in the Return on Capital component of the RCM calculations. A review of the Financial Reporting Guideline for non-Scheme Pipelines (p20) has identified that this treatment was in error, as the Return on Capital should be applied to "the closing value of the capital base from the immediately preceding year". APA's approach incorrectly calculated the Return on Capital as being based on the closing balance from the immediately preceding year plus half the capital expenditure in the year.

For RCM reporting published from FY21 onwards, the Return on Capital has been calculated, for all reported years, based on "the closing value of the capital base from the immediately preceding year". The "half-year WACC" has now been added to the reported capital expenditure and capitalised as part of the asset value, consistent with regulatory practice.

This has had an immaterial impact on the RCM calculations. Previously where the Return on Debt related to the current year capital expenditure was considered to be tax deductible as part of the Net Tax Allowance calculation, this is now capitalised as part of the asset value.

3.4.3 Update – 2020 published information

As discussed in section 3.2.4, APA has applied a benchmark cost of debt in the RCM calculations, as advised by an independent expert consulting firm. In the process of preparing the 2020 RCM information, the expert advised APA that its calculations suffered from a value translation error, which impacted its advised cost of debt. The cost of debt was recalculated, and the RCM values were corrected in the 2020 reporting.

For most pipelines, the cost of debt error did not have a material impact on the previously published RCM calculations – the previously published numbers are not false or misleading in any material particular. However, correcting the error did have a material impact on the previously reported RCM values for the Pilbara Pipeline System, and the 2018 and 2019 values were re-published in accordance with Rule 551. Further information can be found in tab 6 of the 2020 reporting for each pipeline template.

3.4.4 Update - 2019 published information

In 2019, further review of the 2018 reported amounts uncovered a number of immaterial errors in the 2018 RCM reporting. As these errors did not result in material misstatement of the 2018 reported amounts, the 2018 reports have not been restated. The revisions were incorporated in the 2019 reporting and further information can be found in the tab 6 of each pipeline template.

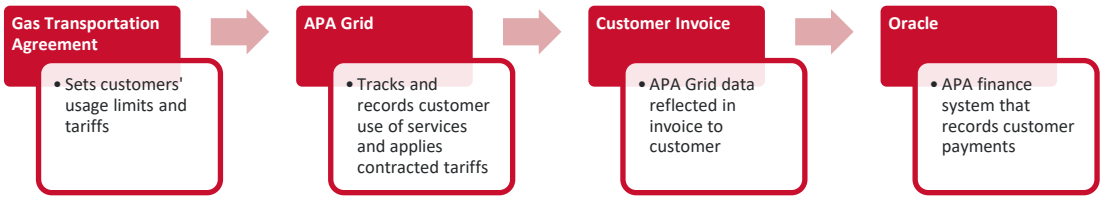
4 weighted average price information

4.1 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 4.3.1 below.

4.2 methodology

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

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

$$\text{Volumetric-based charging} = \frac{\$Revenue}{Gigajoules\ transported}$$

4.3 determination of revenue

4.3.1 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 2.3.1.2 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.

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 the part 23 regulation (such as the Moomba Sydney 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 .[7]

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.

[7] 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.

4.3.2 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.

4.4 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.

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

4.4.1 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:

- Berwyndale Wallumbilla Pipeline
- Moomba Sydney Pipeline
- South West Queensland Pipeline
- Wallumbilla Gladstone 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 4.5 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.

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.[8]

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 were 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.

[8] As noted in section 4.7 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.

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.

4.4.2 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.

4.4.3 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.

4.4.4 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.

4.4.5 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.

4.5 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 with 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.

4.5.1 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.

4.6 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 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.

4.7 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.