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# APA

## Cost Allocation Methodology

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# Contents

<b>1</b>	<b>Nature, Scope and Purpose</b>	<b>3</b>
<b>2</b>	<b>Corporate and Organisational structure</b>	<b>3</b>
2.1	Corporate Structure	3
2.2	Operating Structure	4
<b>3</b>	<b>Accountabilities and Responsibilities</b>	<b>7</b>
<b>4</b>	<b>APA's Business Segments</b>	<b>8</b>
4.1	Business Segments	8
4.2	Transmission Services	9
<b>5</b>	<b>Cost Allocation Principles and Policies</b>	<b>10</b>
5.1	Overview of Approach	10
5.2	Cost categories	10
5.2.1	Directly attributable costs	10
5.2.2	Other directly attributable costs	11
5.2.3	Shared corporate expenditure	11
5.3	Attribution of costs and allocation of costs between the reference service and non-reference service	12
<b>6</b>	<b>Records Management</b>	<b>13</b>
<b>7</b>	<b>Compliance</b>	<b>14</b>
<b>A</b>	<b>Appendix</b>	<b>15</b>
A.1	Document Structure	15

## 1 Nature, Scope and Purpose

The purpose of this document is to set out the Cost Allocation Methodology ("CAM") adopted for APA Regulatory reporting purposes. This CAM guideline has been developed with reference to the AER's guideline for Electricity distribution businesses as set out in "Electricity distribution network service providers, cost allocation guidelines" ("CAG") published in June 2008. The CAG has been used as a guide as there are currently no cost allocation methodology guidelines available for gas transmission businesses.

The purpose of the CAM is to set out the policy for attributing and allocating cost to services in accordance with the NGR, and for reporting operating and capital costs information to the AER.

The CAM shall be read in conjunction with the relevant Basis of Preparation of each regulatory reporting regime.

The document also provides guidance for APA management and staff in relation to cost allocation principles, policies and ongoing obligations as they relate to the operations and delivery of the services.

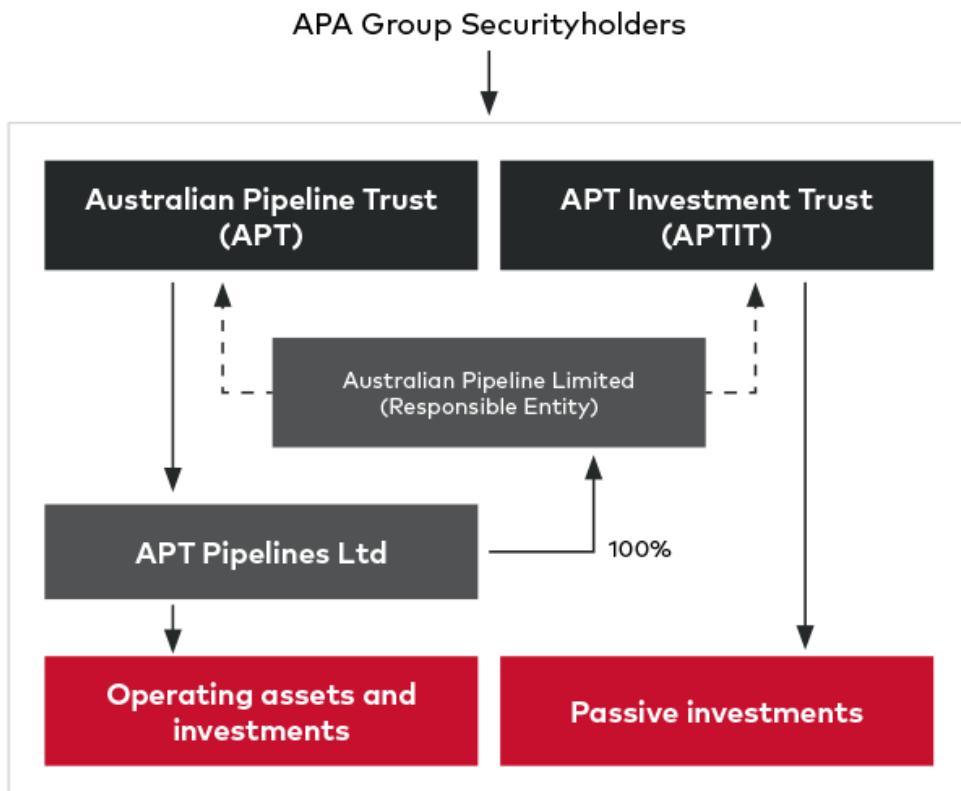
## 2 Corporate and Organisational structure

### 2.1 Corporate Structure

APA is a leading Australian energy infrastructure business developing, owning and operating energy infrastructure. APA has a diverse portfolio of gas transmission pipelines on mainland Australia.

APA comprises two registered investment schemes – Australian Pipeline Trust ("APT") and APT Investment Trust ("APTIT") – and their controlled entities. The securities of APT and APTIT are stapled and trade and must otherwise be dealt with together.

Australian Pipeline Limited is the responsible entity of APT and APTIT. APT Pipelines Limited, a company wholly owned by APT, is APA's borrowing entity and the owner of the majority of APA's operating assets and investments. APA's operating assets include the Victorian Transmission System, Amadeus Gas Pipeline, and Roma Brisbane Pipeline which are heavy regulated assets.



## 2.2 Operating Structure

APA's business is structured to align with APA's Purpose and Vision. APA's Purpose is to "strengthen communities through responsible energy". APA's Vision is to be "world class in energy solutions".

APA's business operations are overseen and managed by the CEO&MD, and Group Executives from each of APA's eight business units. A brief summary of those business units is provided below.



**People, Safety & Culture** ensures the business has the appropriate frameworks, policies, systems and processes to ensure that 1) APA has the right talent through building a positive culture and employee experience; and 2) we operate our assets in a manner that keeps our people and surrounding communities and environment safe.

**The Finance** function oversees the accounting and governance framework that underpins APA's financial systems. Its mandate is to deliver capital and balance sheet management, financial and management accounting, business planning, treasury, taxation, property, procurement and investor relations services that satisfy APA's compliance obligations and optimise our financial position.

**The Governance and External Affairs** function encompasses governance, risk and legal areas as well as the associated functions of External Affairs and Reputation, Economic Regulatory and External Policy as well as Sustainability and Community.

**The Transformation and Technology** function drives the identification of emerging market opportunities whilst delivering business transformation, continuous improvement initiatives and technology solutions within our day to day business.

**The Strategy and Commercial** function's mandate is to ensure APA executes its strategy in alignment with APA's Vision to be world class in energy solutions. This function supports APA's promise to deliver to customers services that they value.

**Infrastructure Development** ensures the fulfilment of APA's strategy through effective project management of growth projects from project concept through to commissioning. The division encompasses community engagement, land access, approvals, engineering and design, procurement and construction activities.

**Operations** oversees the safe and efficient operation of all APA's portfolio of Transmission, Power, Networks and Mid-Stream assets and investments to deliver value for APA's customers. Within Operations, functions are split between:

- Transmission – Responsible for the management and operation of APA's gas transmission and gas storage businesses, including all aspects of commercial and operational performance.
- Power – Responsible for the management and operation of APA's gas-fired and renewable energy power generation assets, including all aspects of commercial and operational performance.
- Mid-stream – Responsible for the management and operations of APA's gas processing assets including all aspects of commercial and operational performance.
- Asset Management - APA provides asset management and operational services to the majority of its energy investments and to a number of third parties. Its main customers are Australian Gas Networks Limited ("AGN"), Energy Infrastructure Investments ("EII") and GDI ("GDI"). Asset management services are provided to these customers under long-term contracts.

July 2020



**The North American** function assesses acquisition opportunities in North America that are consistent with our operating capabilities and that will generate similar low risk and predictable cash flows as APA's current business.

### 3 Accountabilities and Responsibilities

Table 3-1 CAM responsibilities sets out the key accountabilities and responsibilities for updating, maintaining, applying and monitoring the CAM.

Table 3-1 CAM responsibilities

Role	Responsibility
Company Directors and Senior Management	<ul style="list-style-type: none"> <li>Approval of the CAM</li> </ul>
General Manager Finance	<ul style="list-style-type: none"> <li>Overall accountability for the CAM</li> <li>Implement the CAM and maintain associated costing procedures and guidelines for staff</li> </ul>
Financial Accounting and Regulatory Reporting Team	<ul style="list-style-type: none"> <li>Apply the CAM in preparation of regulatory reporting to the AER, and development of supporting working papers.</li> <li>Day-to-day responsibility for updating, maintaining, internally monitoring and reporting on the application of CAM.</li> </ul>
Finance and accounting team	<ul style="list-style-type: none"> <li>Recognise and report financial information in accordance with accounting policies and CAM.</li> </ul>
Regulatory team	<ul style="list-style-type: none"> <li>Provide advice on design, implementation and ongoing compliance for the CAM</li> <li>Advise the relevant changes to regulation or any other regulatory developments that may impact the CAM</li> </ul>
Operational Managers	<ul style="list-style-type: none"> <li>Comply with the CAM and support its application within relevant area of responsibility.</li> </ul>
All staff	<ul style="list-style-type: none"> <li>Comply with all relevant costing procedures and guidelines issued to ensure that APA complies with the CAM.</li> </ul>

While significant responsibilities lie within the General Manager Finance team for the application of the CAM, all APA management and staff share responsibility for compliance and for the provision of accurate costing inputs and information (e.g. timesheet, vendor invoices) used within the cost allocation process.

## 4 APA's Business Segments

### 4.1 Business Segments

APA derives the majority of its revenue through the provision of transmission, power generation, gas processing and asset management services. These services are provided by utilisation of APA's own Energy Infrastructure assets, or through the provision of Asset Management services. These services are provided by APA's operations function.

In addition to the provision of these services, APA derives revenue from investments in a number of complementary energy investments across Australia.

APA's results are reported in three principal business segments as outlined in Table 4-1 APA Business Segment.

Table 4-1 APA Business Segment

Segments	Services	Division description and activities
Energy Infrastructure	Transmission services	Provides gas transmission and gas storage services to third parties, via APA's network of gas transmission pipelines and gas storage assets.
	Power generation services	Provides electricity generation services to third parties via APA's gas-fired and renewable energy power generation assets.
	Midstream services	Provides gas processing services via APA's midstream gas processing assets.
Asset Management	Asset Management services provided for other entities assets.	Provides asset management and operational services to the majority APA's energy investments and to a number of third parties. Its main customers are Australian Gas Networks Limited (AGN), Energy Infrastructure Investments and GDI. Asset management services are provided to these customers under long-term contracts.
	Services provided on assets APA manages to accommodate third party projects.	Services provided related to the provision of asset management services over APA's assets for the benefit of third party customers, including Customer Contributions and recoverable type works from third party projects.



Segments	Services	Division description and activities
Energy Investment	Investment holdings	<p>Includes APA's strategic stakes in a number of investment vehicles that house energy infrastructure assets, generally characterised by long-term secure cash flows, with low ongoing capital expenditure requirements.</p> <p>APA charges costs to the majority of its investment entities, which represent the provision of corporate services directly under these management contracts.</p>

Supporting each of these areas are APA's corporate functions. These functions include CEO, CFO, General Counsel and Company Secretary, Risk & Compliance, HR, HSE and IT, etc.

## 4.2 Transmission Services

Within Transmission Services under the Energy Infrastructure segment, APA provides:

- pipeline services, which include reference services and non-reference services outlined in the services policy section of the APA's Access Arrangements as approved by AER for the relevant regulatory period;
- non-pipeline services, which are not within the scope of APA's Access Arrangements as approved by AER for the relevant regulatory period.

APA records its costs between these categories of the services to the extent applicable under each Access Arrangement.

## 5 Cost Allocation Principles and Policies

The following key principles underpin APA's CAM and are used to attribute costs to, or allocate costs between categories of assets:

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

The CAM covers attribution of costs to, and allocation of costs between the reference service and non-reference service.

### 5.1 Overview of Approach

All costs (operating and capital) are captured in APA's financial reporting system ("Oracle") which comprises a number of modules for managing the recording, processing and reporting of all business transactions from initiation through to payment. Oracle is the primary source of financial information. Costs are captured through cost centres and project reporting. The cost centre and project reporting provides details on the activity type of the costs, reflecting categories of capital, operating & maintenance activities and services.

Inventories are maintained in the Maximo system. Issuance of inventories to capital and operating projects is tracked via work orders in Maximo. Maximo feeds the work orders to the Oracle financial reporting system on a monthly basis.

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

### 5.2 Cost categories

APA's operating and capital costs fall within the categories below:

- Directly attributable costs
- Other directly attributable costs
- Shared corporate expenditure

#### 5.2.1 Directly attributable costs

Directly attributable costs to the pipeline service provider are expenses that are clearly associated with a specific or regulated asset. Direct costs are coded to the asset or to a project relating to the asset, through creation of a purchase order at the time of

purchase or direct employees charging their time to the asset or project, using an hourly rate derived from employee payroll costs.

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

### **5.2.2 Other directly attributable costs**

Other directly attributable costs to the pipeline service provider are other expenses and costs directly attributable to the service provider and are incurred by APA's Transmission business<sup>1</sup>. In order to give a true reflection of the cost of running an asset, it is necessary to allocate a portion of APA's Transmission costs to the asset. APA's Transmission costs are reviewed periodically to determine the extent the business unit's function has a bearing on the assets.

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

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

- Time/effort based - national transmission pipeline services such as the IOC costs are assigned to each non-scheme pipeline, reflective of time spent.
- Customer based - national cost centres that provide transmission services such as daily nominations, invoicing and billing allocate their costs based on the number of customers or number of contracts.
- Headcount based - national services such as Human Resources Training and Development; and facilities recharges are allocated to the business based on the number of overall headcount in the business.
- State based - national services such as Health, Safety, Environment and Heritage are provided by state based employees. The state based costs are allocated to the pipelines within that state using the aforementioned cost allocators.

### **5.2.3 Shared corporate expenditure**

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

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<sup>11</sup> Transmission Division is responsible for the management of APA Group's transmission and gas storage assets, including all aspects of commercial and operational performance.

APA has utilised the revenue based allocation method for its allocation of shared corporate expenditure as approved by the AER in the APA Victorian Transmission System ("VTS") access arrangement 2018-2022.

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

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

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

APA owns but does not operate the Wallumbilla Gladstone Pipeline ("WGP"). Recognising this, APA has allocated treasury and accounting-related expenditure, and other related expenditure for 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 as a cost allocator is the revenue from contracts with customers of the energy infrastructure segment, excluding pass-through revenue, and a portion of the revenue from contracts with customers of the asset management segment, as reported in APA's financial statements.

### **5.3 Attribution of costs and allocation of costs between the reference service and non-reference service**

Each access arrangement determination stipulates the costs attributed to the Reference Services and Non-Reference Services. Each service provider attributes all costs to the Reference Service and Non-Reference service in accordance with the allocation methodology applied in the access arrangement.

## 6 Records Management

APA's Oracle Finance and Reporting system 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 it's supporting analytical spreadsheet packages.

APA records of cost attribution and allocations are maintained as follows:

- All base financial records are extracted from APA's financial systems;
- APA's statutory financial statements and associated accounting records will form the foundation for all reporting requirements;
- Analytical templates and work papers prepared for regulatory reporting;
- All records will be kept for at least seven years from the date of each regulatory submission; and
- 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.

## 7 Compliance

The CAM will be the primary guide for cost allocation for regulatory reporting purposes. It is primarily used for all forms of regulatory reporting in determining the appropriate costs to support and substantiate future price submission to the AER.

APA will monitor its compliance with the CAM by undertaking internal annual reviews of its cost allocation models, template and work papers and ensuring the APA Cost Allocation Policy is up to date. This review is to be undertaken by the Financial Accounting and Regulatory Reporting team.

The AER may require external auditors to review or audit the financial data contained in a RIN for compliance with the CAM prior to it being submitted to the AER. APA engages independent auditors to audit the annual statutory financial statements, internal controls and the regulatory accounts, which have all utilised the CAM as part of their preparation.

APA has ongoing annual internal and external audit programs that are in addition to those specified above.

## A Appendix

### A.1 Document Structure

The structure of the APA's CAM, the corresponding regulatory requirements of the CAG are outlined in Table A-1 CAM Structure.

Table A-1 CAM Structure

Section	Title	Purpose	CAG Section
Cover page	Version history, date of Effect, and authorisation.	Sets out the version number, history, authorisation, date of issue and effect of this document.	3.2(a)(1) 3.2(a)(9)
1	Nature, Scope and Purpose	Provides a statement of the nature, scope and purpose of the CAM.	3.2(a)(2)
2	Corporate and Organisational Structure	Describe APA's corporate and organisational structure.	3.2(a)(4)
3	Accountabilities and Responsibilities	It also sets out the way in which it is to be used by APAs, including:  Accountabilities for implementing the CAM; and  Responsibilities for updating, maintaining and applying the CAM, and for monitoring and reporting on its application.	3.2(a)(3)
4	APA's Business Segments	Summarises the categories of services to which the costs are allocated	3.2(a)(5)
5	Cost allocation Principles and Policies	Outlines the principles and policies to be used for attributing costs directly to, or allocating costs between, categories of transportation services that meet the requirement of cl 2.2 of the CAG.	3.2 (a)(6)
6	Records Management	Describes how APA will maintain the attribution and allocation of costs to, or between, categories of transportation services.	3.2(a)(7)
7	Compliance	Describes how APA will monitor its compliance with the CAM and CAG.	3.2(a)(8)