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AER Information Request #18

Overheads

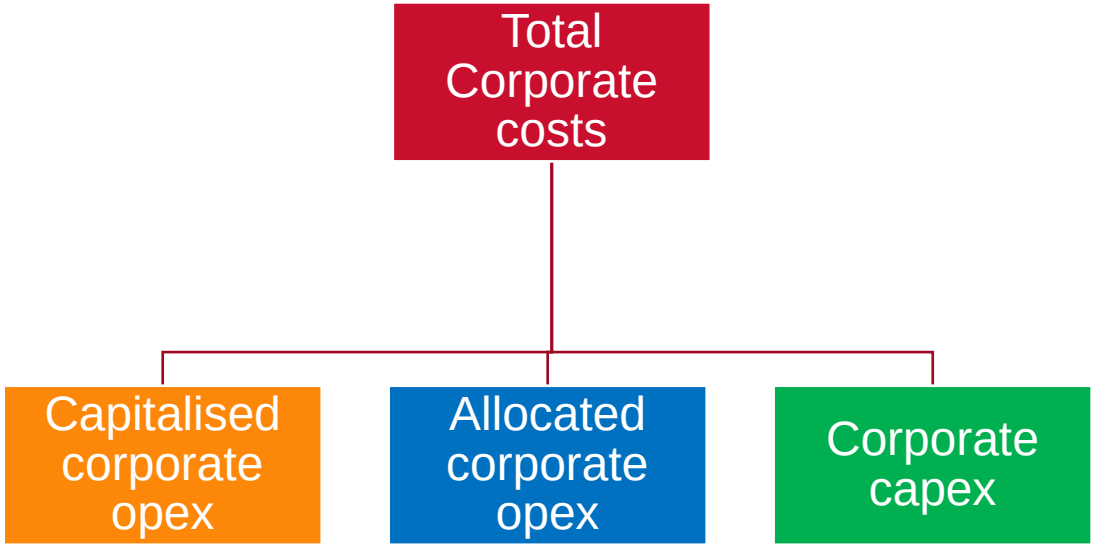
10 May 2022

Introduction

The purpose of this meeting is to provide information on:

1. Capitalised overheads;
2. Methodology used to allocate Corporate opex expenditure to APA assets;
3. Methodology used to allocate Corporate assets to APA assets.

- *These are distinct categories with their own allocation methodologies – it is important to keep these categories straight or confusion will ensue.*



All cost allocation processes follow a standard 3-stage process:

1. Costs are directly attributed where possible; then
2. Remaining costs are allocated using a causal allocator where possible; then
3. Remaining costs are allocated using a reasonable non-causal allocator.

Definition mapping

APA Term	APA Meaning	AER Term
Corporate expenditure (opex) or Shared corporate expenditure	Operating expenditure incurred at the APA Group corporate level which support the operations of APA Assets For example: services provided by CEO, Legal counsel, Finance, Treasury and Human Resources etc. (P/L item)	Opex overheads
Corporate assets/Shared Support assets	Assets (B/S item) incurred at the APA Group corporate level which support the operations of APA assets. For example: Development of finance and human resource systems and Maximo improvements. (B/S Item)	Capital overheads
Capitalised overheads	Costs incurred to support the construction activities recognised as capitalised expenditure. Includes costs incurred by management/service departments involved in construction activities but cannot be directly traced to capital projects. For example: Executive management, Engineering, Human resources and Finance etc.). An allocation of such costs form part capital expenditure at the individual project level. (B/S Item)	Capitalised network overheads and capitalised corporate overheads.

Definition mapping (continued)

Capitalised overheads per APA Vs Capitalised corporate overheads and ‘capitalised network transmission pipeline overheads per AER.

Capitalised overheads per APA appears to be a combination of what AER defines as ‘capitalised corporate overheads’ and ‘capitalised network transmission pipeline overheads’.

Unfortunately APA are unable to categorise capitalised overheads in line with the AER categorises of ‘capitalised corporate overheads and ‘capitalised network transmission pipeline overheads.

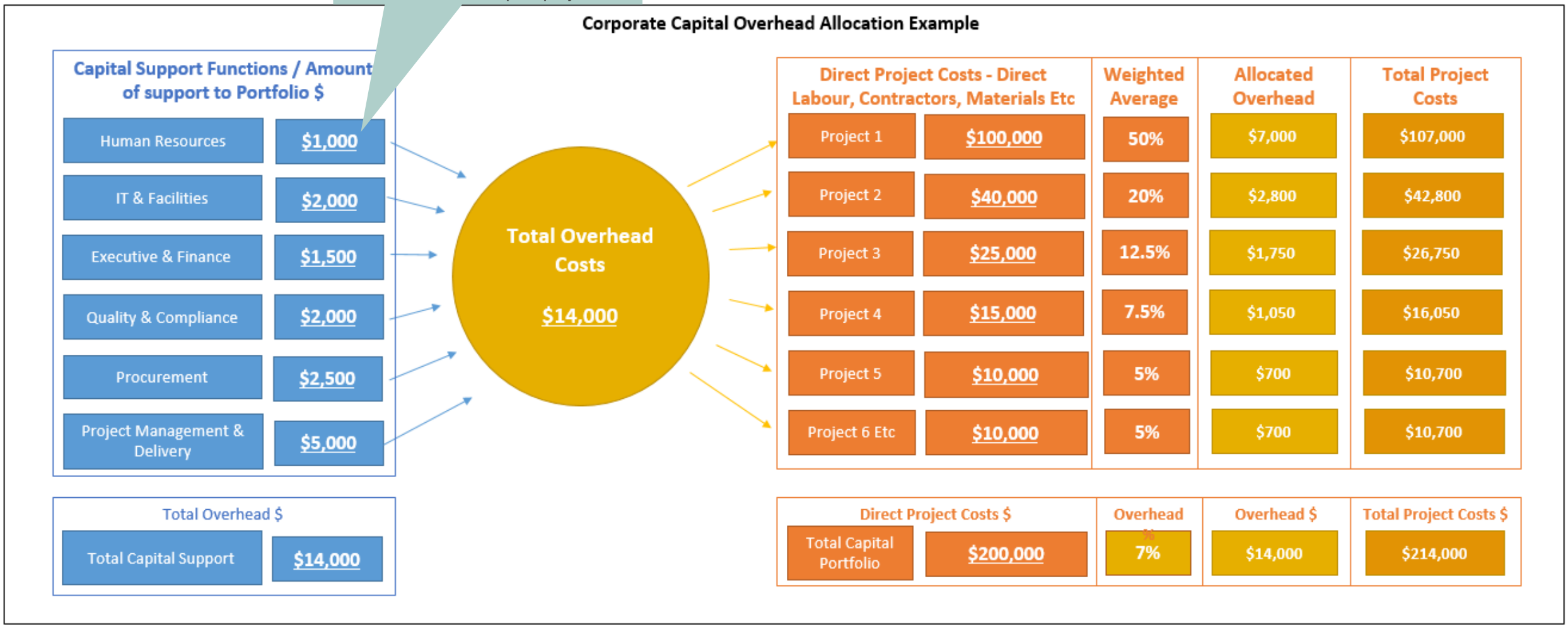
capitalised corporate overheads	Corporate overhead expenditure recognised as part of the cost of an *asset* i.e. as *capital expenditure*. This expenditure refers to the provision of corporate support and management services by the corporate office that cannot be directly identified with a specific *capital expenditure purpose*. Corporate overhead costs typically include those for executive management, legal and secretariat, human resources, finance, and other corporate head office activities or departments.
capitalised network (transmission pipeline) overheads	Transmission pipeline overhead expenditure recognised as part of the cost of an *asset* i.e. as *capital expenditure*. This expenditure refers to the provision of transmission pipeline control and management services that cannot be directly identified with a specific *capital expenditure purpose* and is not included in *capitalised corporate overheads*.

Overview

Example			Order discussed
Total corporate costs recorded	B/S & P/L		
Less: Costs (materials, contactor, labour and other costs) recorded to corporate capital projects	B/S	Corporate capex	3
Less: Cost recorded to capital projects (i.e. via capitalised overhead allocations)	From P/L to B/S	Capitalised overheads	1
Corporate operating expenditure	P/L	Corporate opex	2

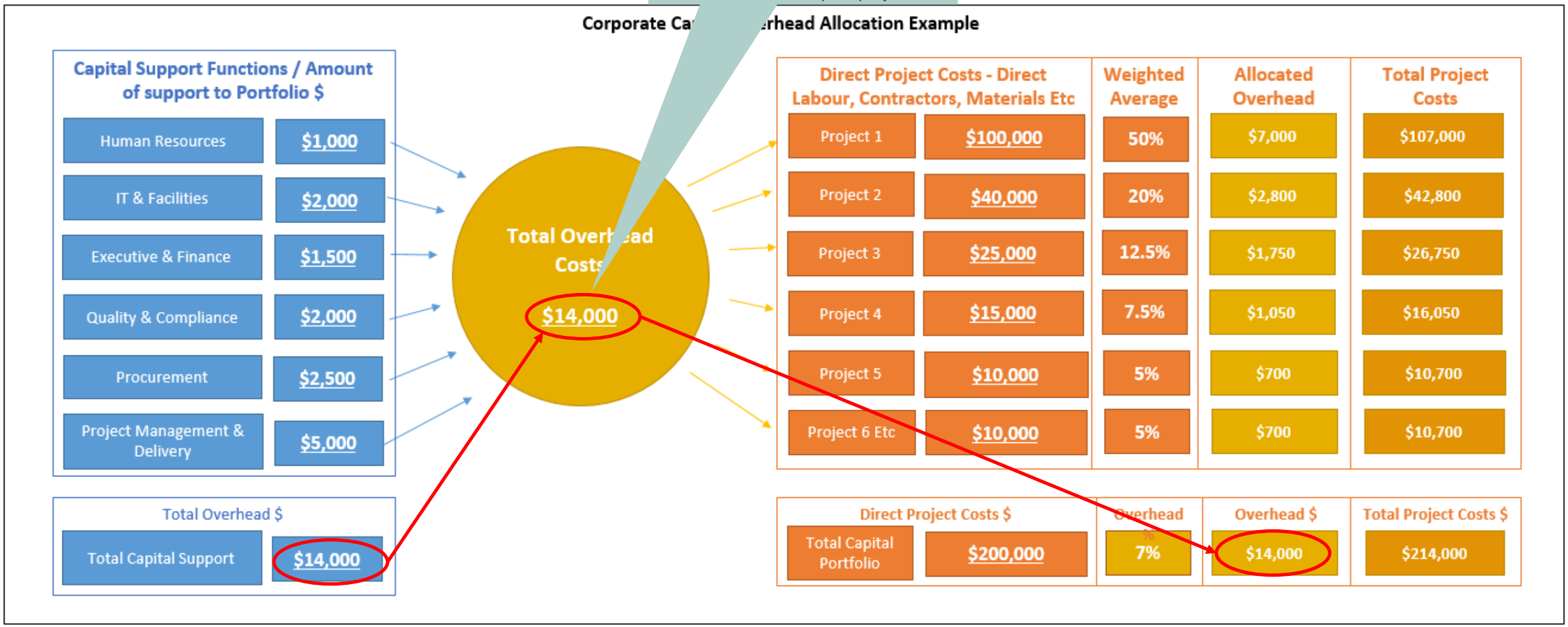
Capitalised overheads (1)

Step 1 – Each “overhead” department determines the amount of their costs attributable to capital projects

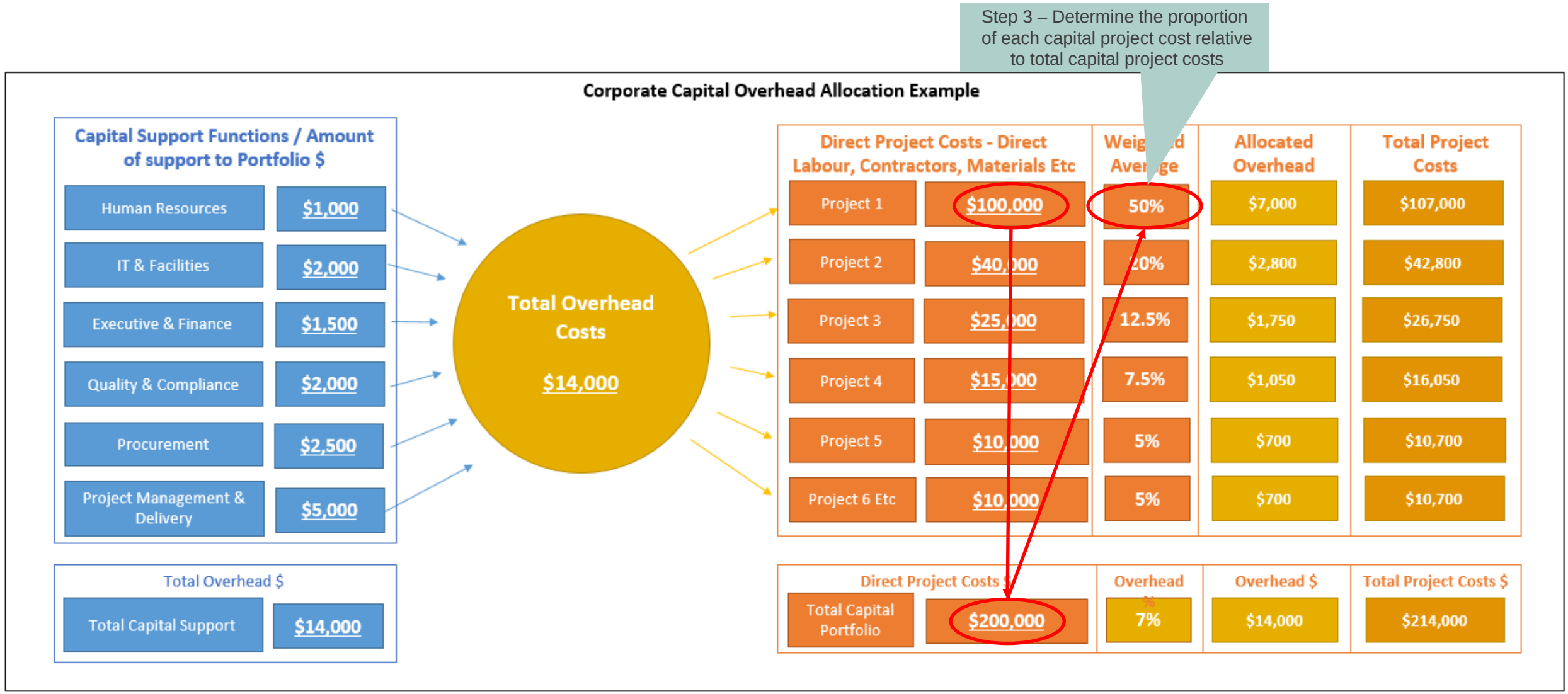


Capitalised overheads (2)

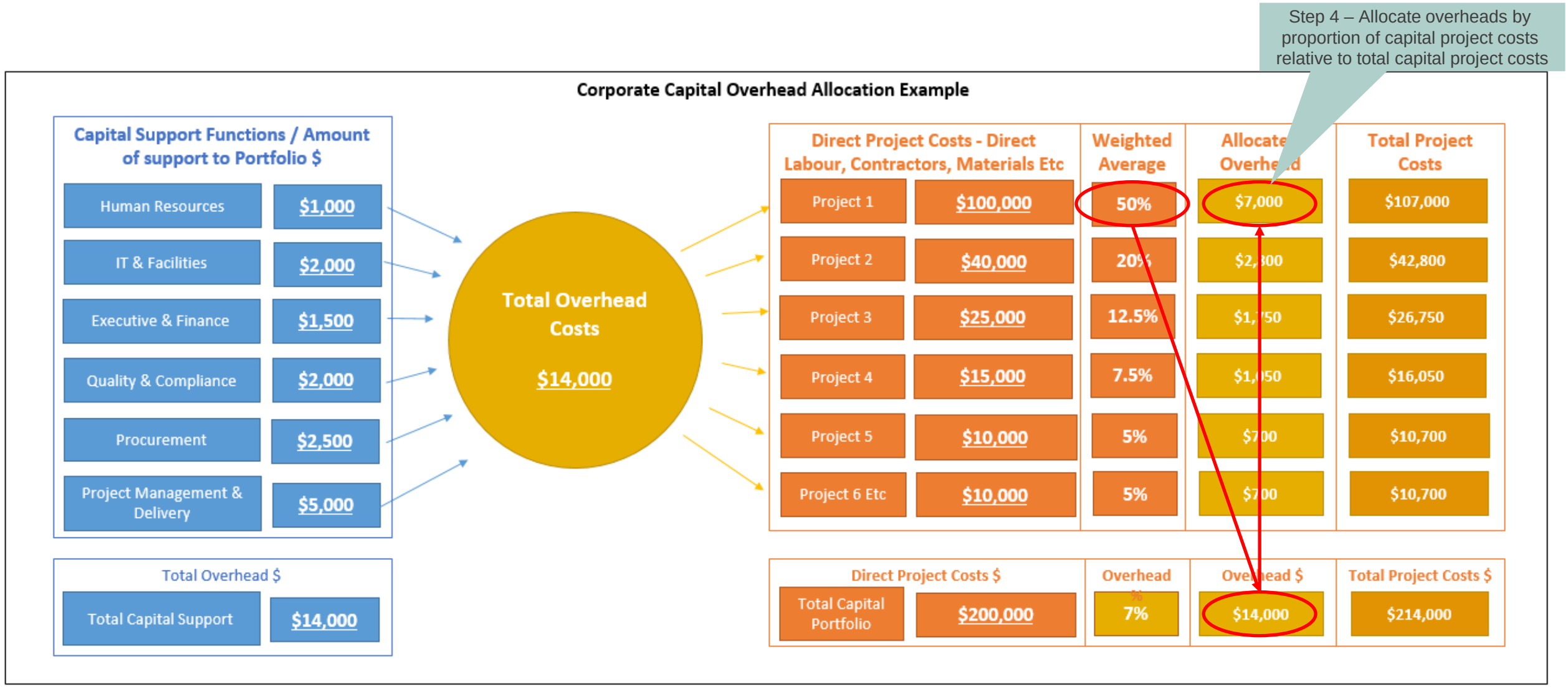
Step 2 – This is summed to determine the total amount of overheads attributable to capital projects



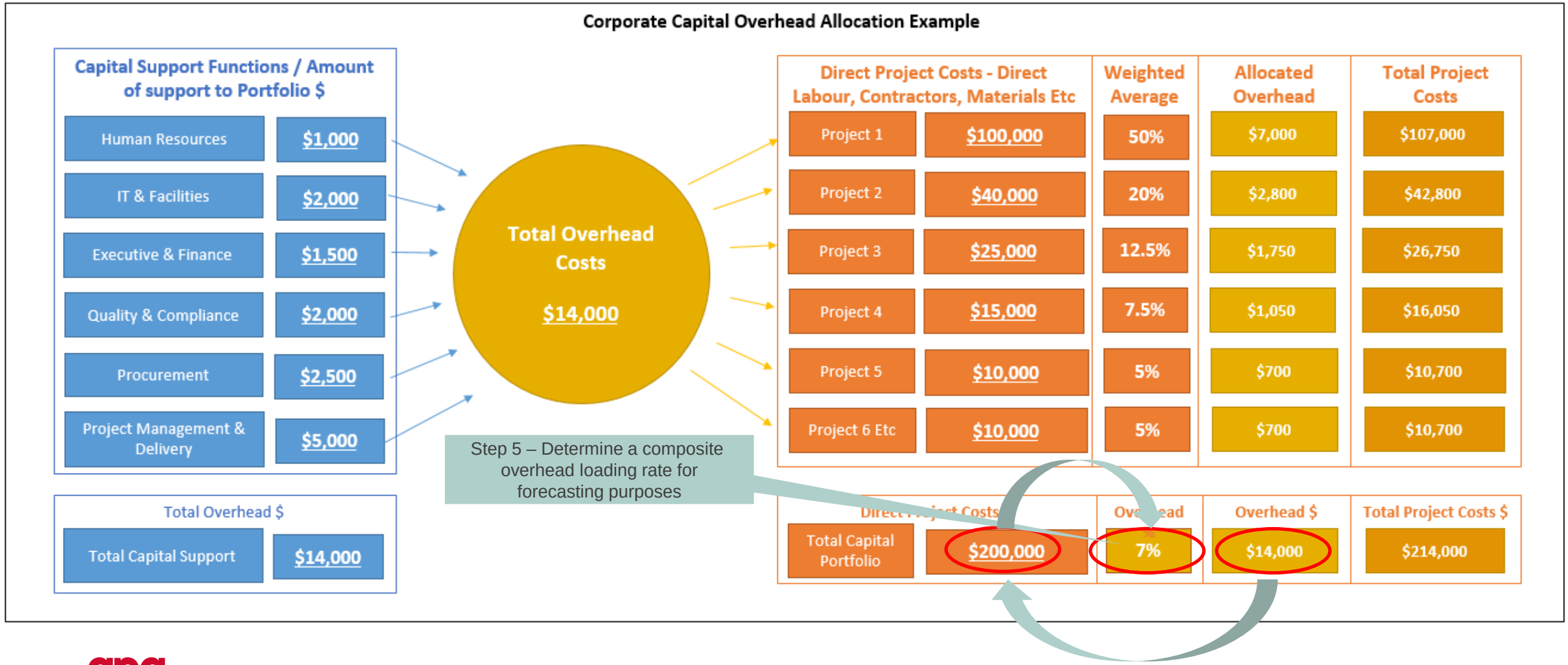
Capitalised overheads (3)



Capitalised overheads (4)



Capitalised overheads (5)



Capitalised overheads (6)

Step 6: Calculate a 6-year average of capitalised overhead rates for forecasting purposes.

		Capitalised overheads	Total Direct project costs	Capitalisation %
FY16	**2016 Total**			
FY17	**2017 Total**			
FY18	**2018 Total**			
FY19	**2019 Total**		[Redacted	
FY20	**2020 Total**			
FY21	**2021 Total**			
				6.91%

Corporate operating expenditure – Allocation Methodology (1)

Step 1 - Analyse corporate expenditure:

- Identify costs that relate to activities that do not support/benefit APA assets.

  For example costs incurred which are investitive in nature (US investigations, Commercial projects and Pathfinder activities) and takeover defence costs.

- Identify IT Cloud configuration costs that have been treated as an expense but required to be treated as capital expenditure for regulatory purposes to the end of the current Access Arrangement period.

The corporate expenditure is adjusted to remove such costs.

	$
Total APA Corporate expenditure	108,000,000
Less remove costs not to be shared to APA Assets	
Corporate exp. relating to investigations for the acquisition of further assets, pathfinder projects and IT Cloud configuration costs	(35,000,000)
Corporate expenditure to be allocated to APA Assets	73,000,000

(numbers are illustrative)

Corporate operating expenditure – Allocation Methodology (2)

Step 2 - Identify corporate expenditure that

(1) can be directly applied to Assets;

(2) which relates to specific groups assets; and

(3) determine the residual Corporate expenditure to be allocated amongst all assets.

	$
Total APA Corporate expenditure	108,000,000
Less remove costs not to be shared to APA Assets	
Corporate exp. relating to investigations for the acquisition of further assets, pathfinder projects and IT Cloud configuration costs	(35,000,000)
Corporate expenditure to be allocated to APA Assets	73,000,000

	Step 2
	$
To be allocated as follows:	
Corporate opex to WGP	1,000,000
Corporate opex to other APA (Unregulated) activities	2,000,000
Corporate opex to be allocated to transmission assets only	150,000
Corporate opex to be allocated to all Assets	69,850,000
	73,000,000
(numbers are illustrative)	

Corporate operating expenditure – Allocation Methodology (3)

Step 3. Calculate the revenue as the basis of allocation

- Starting point is the Statutory revenue (exclusive of pass through revenue).
- Remove Wallumbilla-Gladstone Pipeline revenue
  - APA does not operate this asset.
  - Corporate expenditure allocated to this asset is an estimate of the corporate expenditure incurred support this asset.
- Removal of revenue relating to asset management activities where a corporate expenditure has been passed on to customers.
- Removal of Equity Accounted Profits & Finance Leases
  - due to the nature of this type of revenue, minimal corporate expenditure are incurred to support this activity.

Corporate opex – Allocation Methodology (3A)

	Step 3	
	Type of business	
1. Amadeus Gas Transmission	Transmission	[Redacted]
2. Goldfields Gas Pipeline	Transmission	
3. Roma-Brisbane System	Transmission	
4. Victorian Gas Transmission	Transmission	
5. Carpentaria System	Transmission	
6. Central West Pipeline	Transmission	
7. Kalgoorlie Kambalda Pipeline	Transmission	
8. Berwyndale Pipeline	Transmission	
9. Eastern Goldfields Pipeline	Transmission	
10. Moomba-Sydney Pipeline	Transmission	
11. Murrin Murrin Lateral	Transmission	
12. Parmelia System	Transmission	
13. Pilbara Pipeline	Transmission	
14. SESA Pipeline	Transmission	
15. South West Queensland Pipeline	Transmission	
16. Wallumbilla-Gladstone Pipeline	Transmission	
17. Other APA (Unregulated) Activities	Other	

Corporate operating expenditure – Allocation Methodology (continued)

Step 4. Allocating the Corporate expenditure.

- Attribute the corporate capital expenditure that can be directly applied to Assets.
- Allocate the corporate expenditure incurred to support the same type of APA assets on the basis of their revenue.
- Allocate the residual corporate expenditure to all APA Assets based on all revenue.

Corporate operating expenditure – Allocation Methodology (continued)

For example:

	Type of business	Step 4
1. Amadeus Gas Transmission	Transmission	[Redacted]
2. Goldfields Gas Pipeline	Transmission	
3. Roma-Brisbane System	Transmission	
4. Victorian Gas Transmission	Transmission	
5. Carpentaria System	Transmission	
6. Central West Pipeline	Transmission	
7. Kalgoorlie Kambalda Pipeline	Transmission	
8. Berwyndale Pipeline	Transmission	
9. Eastern Goldfields Pipeline	Transmission	
10. Moomba-Sydney Pipeline	Transmission	
11. Murrin Murrin Lateral	Transmission	
12. Parmelia System	Transmission	
13. Pilbara Pipeline	Transmission	
14. SESA Pipeline	Transmission	
15. South West Queensland Pipeline	Transmission	
16. Wallumbilla-Gladstone Pipeline	Transmission	
17. Other APA (Unregulated) Activities	Other	8.2%

Corporate assets – Allocation Methodology

Methodology used to allocate Corporate assets to APA assets.

Corporate assets not recorded in the ledgers of individual APA assets, they are recorded in the ledger of the "Corporate Entity".

As assets recorded in the Corporate Entity support the APA assets, for regulatory purposes we recognise a portion of the corporate asset cost.

The allocation of Corporate assets is on the basis corporate operating expenditure.

Project name	Category	$
DirectLink SCADA Upgrade	Diretlink	50,000
Zscaler Development	Benefit	100,000
ERP Implementation	Benefit	3,000,000
		3,150,000

Step 1 - Analyse corporate assets:

- Identify the corporate assets that support/benefit APA assets.

Step 2

- Allocate corporate assets identified as providing a benefit to APA Assets/Service providers based on % of corporate expenditure.

Project name	Category	$		VTS Share
				8.20%
DirectLink SCADA Upgrade	Diretlink	50,000		
Zscaler Development	Benefit	100,000		8,203
ERP Implementation	Benefit	3,000,000		246,095
		3,150,000		254,299

Corporate assets – Allocation Methodology (continued).

	Type of business
1. Amadeus Gas Transmission	Transmission
2. Goldfields Gas Pipeline	Transmission
3. Roma-Brisbane System	Transmission
4. Victorian Gas Transmission	Transmission
5. Carpentaria System	Transmission
6. Central West Pipeline	Transmission
7. Kalgoorlie Kambalda Pipeline	Transmission
8. Berwyndale Pipeline	Transmission
9. Eastern Goldfields Pipeline	Transmission
10. Moomba-Sydney Pipeline	Transmission
11. Murrin Murrin Lateral	Transmission
12. Parmelia System	Transmission
13. Pilbara Pipeline	Transmission
14. SESA Pipeline	Transmission
15. South West Queensland Pipeline	Transmission
16. Wallumbilla-Gladstone Pipeline	Transmission
17. Other APA (Unregulated) Activities	Other

[Redacted]

Conclusion