APA

Australia's energy infrastructure partner

Financial reporting guideline for light regulation pipeline services

Basis of preparation

October 30, 2026

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1. Introduction

In October 2019 the Western Australia Economic Regulation Authority (ERA) issued the Financial Reporting Guideline for light regulation for pipeline services (Guideline) in accordance with rule 36F of the National Gas Rules (NGR).

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

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

The Guideline requires reporting in the following distinct categories:

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

The Guideline states that service providers are required to comply with the Australian Accounting Standards (AAS) except where the Guideline provides a methodology inconsistent with the AAS.

The Guideline creates a new Special Purpose Financial Reporting Framework, which differs in significant ways from the statutory reporting framework defined by the AAS. It is important to note that the information produced under the Guideline will not reconcile to the majority of financial information prepared by the Service Provider under AAS. This Basis of Preparation document applies to the Kalgoorlie Kambalda Pipeline, which is subject to light regulation. The service provider of the Kalgoorlie Kambalda Pipeline is Southern Cross Pipelines Australia Pty Ltd.

1.1. Pipeline-specific information

1.1.1. Kalgoorlie Kambalda Pipeline (KKP)

The Kalgoorlie to Kambalda Pipeline (KKP) is a transmission pipeline located in Western Australia's Goldfields region. It transports gas from Kalgoorlie to Kambalda and is connected to the Goldfields Gas Pipeline (GGP), from which it receives gas.

Although the KKP is physically connected to the GGP, it is treated as a separate pipeline for regulatory and operational purposes.

The KKP is owned and operated by APA Group (APA).

Key characteristics of the KKP are as follows:

KKP Characteristics	
Year of construction	1996
Pipeline type	High-pressure steel pipeline
Length	44 kilometres
Capacity	39.4 terajoules per day (TJ/day)

1.2. Rounding

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

1.3. Requirement to publish financial information

The financial reporting under light regulation is an annual reporting requirement for the KKP. This report must be published no later than 4 months after the end of the financial year.

As the service provider of the KKP, Southern Cross Pipelines Australia Pty Ltd — part of the APA Group — reports on a 30 June financial year end, the required financial information must be published by 31 October each year, or on the next business day if 31 October falls on a weekend.

The historical publishing dates are as follows:

Reporting Year	Date published/Due
2026	30 October 2026
2025	31 October 2025
2024	31 October 2024
2023	31 October 2023
2022	31 October 2022
2021	1 November 2021
2020	30 October 2020

1.4. Assurance requirement

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

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

Certain worksheets subject to an assurance requirement listed above, present information that is greater than seven years from the date of the initial regulatory year's submission. This is presented in the template but is not subject to audit or review.

APA will maintain records as follows:

- All base financial records will be extracted from APA's financial systems;
- APA's statutory financial statements and associated accounting records will form the basis of all reporting requirements;
- Analytical templates and work papers prepared for regulatory reporting;

- All records will be kept for at least seven years from date of initial regulatory years submission; and for the subsequent regulatory years, for at least seven years from the date of the respective submission; and
- All records will be available to independent auditors and the ERA.

1.5. Requirement to report an RCM value

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

For KKP, the RCM is utilised for reporting purposes as a regulatory asset determination for a RAB had not been made.

1.6. Updates

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

1.6.1. FY21 published information in October 2021

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

APA Group

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

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

Part 7 reporting

Any previously capitalised implementation cost related to SaaS arrangements have been de-recognised in FY21.

Included in the shared support expenditure in the profit or loss in FY21 were implementation costs relating to prior periods that were capitalised prior to 30 June 2020. APA has concluded that the amounts charged to the profit or loss during FY21, relating to prior periods, had no material impact on APA's Part 7 Financial reporting obligations during FY21 and prior years. On that basis, for the year ended FY21, APA has not restated the prior period comparative amounts in the '*Statement of Pipeline Revenue and Expenses'* nor the 'Recovered Capital Method'.

1.6.2. FY22 published information in October 2022

Payroll review

APA Group

In FY22, the first stage of a historical payroll review was conducted which identified that certain employees across 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 7 reporting

For Part 7 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 drivers. APA has concluded that the amounts charged to the profit or loss in FY22 relating to prior periods had no material impact for Part 7 reporting purposes. On that basis, APA has not restated the FY21 comparatives in the '*Statement of Pipeline Revenue and Expenses'* and the 'Recovered Capital Method'. For further information refer tab 6. Notes of the relevant pipeline's reporting templates of for the year ended 30 June 2022 and 2023.

2. Financial summary

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

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

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

2.1. Nominal Weighted Average Cost of Capital

Weighted Average Cost of Capital (WACC) is used in 3 areas:

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

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

In summary, as outlined in the Australia Energy Regulator's (AER) Financial Reporting Guideline for light Regulated Pipeline Services (October 2019), the WACC hierarchy provides for the applied WACC to be calculated in the following order of priority:

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

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

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

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

Notwithstanding that KKP is not governed by the ACCC/AER, the WACC methodology described above has been applied to KKP from the commencement of the ERA Guideline - October 2019 and continues to be applied for consistency and comparability purposes.

3. Pipeline financial information

3.1. Sources of information

Financial data reported in the pipeline's reporting template has been sourced from APA's Enterprise Resource Planning system (ERP), Workday, which comprises a number of modules or activities for managing the recording, processing and reporting of all business transaction from initiation through to payment. These modules or activities include General Ledger, Projects, Fixed Assets, Payables, Receivables and Cash management. This system is the underlying source of financial information disclosed in APA's audited consolidated financial statements. These statutory financial statements are prepared in accordance with the requirements of the *Corporations Act 2001*, AAS and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and also comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Additional financial information is sourced from Roll Forward Material. Roll Forward Material is defined in the AER's Financial Reporting Guideline for Light Regulation Pipeline Services – October 2019 as, "a suite of guidance materials, published by the AER from time to time, setting out how a service provider is to roll forward the asset base of a covered gas pipeline, such as guidelines, final decisions, handbooks and models." Since the ERA has not published its own RFM, the AER's version has been used for KKP.

Financial information extracted from the ERP system and Roll Forward Material prepared for KKP underpins the reported *Statement of Pipeline Revenue and Expenses* and *Statement of Pipeline Assets* for the following categories:

- **Revenue:** the recognition of revenue is in accordance with the requirements of AAS.
- **Operating direct costs:** APA's statutory operating cost categories are in line with the categories identified in the Section 3.1.1.2 of the Guideline. Asset depreciation adopts the regulatory depreciation calculated per the RFM used to establish the RAB (refer to Section 3.4.2.1 in this Basis of preparation).
- **Assets:** Fixed asset opening costs base is driven by the regulatory determination. Annual capital expenditure additions are consistent with the 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 3.3.2.2 in this Basis of Preparation for further details.

3.2. General methodology and principles

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

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

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

The *Statement of Pipeline Revenue and Expenses* and *Statement of Pipeline Assets* for KKP has been audited by APA's external auditor, Deloitte Touche Tohmatsu (Deloitte), in accordance with the AAS. The RCM and WAP has been reviewed by Deloitte and were subject to limited assurance.

3.3. Statement of Pipeline Revenue and Expenses

3.3.1. Revenue

In accordance with the AAS, revenue is recognised at an amount that reflects the consideration to which the service provider expects to be entitled in exchange for the provision of services to a customer (the performance obligations) under a contract. The service provider recognises revenue when control of a product or service is transferred to the customer. Amount disclosed as revenue are net of duties and taxes paid. Given the nature of the service provider's services there is no significant right of return or warranty provided. Direct revenue is derived from transportation services.

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 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 light regulated asset's transport services for the reporting period through identification of the transport service types that have been offered on the pipeline during the reporting period. Transport service types have been aligned with the service types that are reported in financial reporting for other regulatory reporting.

Where a General Ledger (GL) account type is directly aligned with the 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.

3.3.1.1 Related party transactions

As this Basis of Preparation relates to the KKP, which has not been subject to any related party transactions, either historically or during the reporting period, no related party disclosures are required in accordance with the Guideline.

However, in accordance with the Guideline, if related party transactions were to occur, they would be reported in accordance with the following principles:

- A related party is defined in a manner consistent with the Corporations Act 2001 and the Guideline.
- Related party transactions would be disclosed based on arm's length commercial terms, consistent with the competitive parity rule under NGL s.148(2).
- Related party revenue would be reported in the "Related Party Revenue" column in Tables 2.1 and 2.1.1 of the financial reporting template.
- Operating expenditure relating to related party revenue would be calculated using the same proportion as related party revenue:

$$\text{Related Party Operating expenditure} = (\text{Related Party Revenue} \div \text{Total Revenue}) \times \text{Total Operating expenditure}$$

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*.

3.3.2. Costs

All costs (operating and capital) are captured in the APA's financial reporting system through cost centre and project reporting. The cost centre and project reporting 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 attributable cost;
- 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 pipeline asset. Direct costs are coded to the asset or to a project relating to the asset, through creation of a purchase order at the time of purchase or direct employees charging their time to the asset or project, using an hourly rate derived from employee payroll costs.

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

- **other directly attributable costs**: Other directly attributable expenses are costs directly attributable to the assets and are incurred by APA's Operations [1] business. In order to give a true reflection of the cost of running an asset, it is necessary to allocate a portion of APA's 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 pipelines throughout Australia.

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

- Time/effort based - costs associated with operating and capital expenditure services are allocated to pipelines or business units based on time or effort spent.
- Customer based - functions supporting commercial operations are allocated based on the number of customers or contracts managed.
- Headcount based - support services are allocated based on the relative headcount of each business unit or cost centre.
- State based - National services are allocated to pipelines or business units, using a combination of the above allocators as appropriate.

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

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 (ACCC) and the Energy Regulators in Australia (Regulators) have previously accepted the revenue as an appropriate allocator for shared corporate expenditure and APA continues to apply this same methodology. APA has applied an allocation method consistent with the approach previously approved by the AER in past Victorian Transmission System (VTS) Access Arrangements and has been consistently applied to other pipelines.

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 *Leases* (AASB 16). For further information of the impact of AASB 16 please refer to section 3.4.6. in this basis of preparation.

[1] 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.

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

3.3.2.1 Depreciation expense

Depreciation expense is determined in accordance with the regulatory depreciation methodology as set out in the RFM. RFM is defined in the AER's Financial Reporting Guideline for Light Regulation Pipeline Services – October 2019 as, "a suite of guidance material, published by the AER from time to time, setting out how a service provider is to roll forward the asset base of a covered gas pipeline, such as guidelines, final decisions, handbooks and models."

In May 2022 the AER revised its RFM for Gas Transportation Service Providers (initially published in April 2020). For FY22 onwards, the Gas Transmission Service Providers of the APA light regulated pipelines have utilised the revised May 2022 version of the RFM to calculate depreciation expense. It is important to note that comparison of the April 2020 and May 2022 versions of the RFMs resulted in the same total depreciation expense being calculated for periods prior to and inclusive of FY21.

In accordance with rule 89 of the NGR, the AER permits indexation to be applied to the RAB value. As a function of the RFM, depreciation expense reported includes the inflation on the opening base and the straight-line depreciation expense for the year. Where the inflation adjustment exceeds the straight-line depreciation, for the year, this will result in negative/credit depreciation expense being reported in the Table 2.1 *Statement of Pipeline Revenues and Expenses.*

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

As the ERA has not published its own RFM, the AER's version has been used to calculate the depreciation expense for KKP.

3.3.2.2 Shared corporate expenditure

APA reports its total shared corporate expenditure at the consolidated level in its audited financial statements. APA does not allocate shared corporate expenditure to individual pipelines or business segments within its financial reporting system.

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 Arrangements 2018-2022 and 2023 to 2027.

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

1. APA identifies shared corporate expenditure which 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, transmission costs to transmission assets, network costs to network assets, corporate service recharge costs to the management of APA's investments etc.).

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

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

   The revenue used for the purposes of allocating shared corporate expenditure is the revenue from contracts with customers of the Energy Infrastructure segment, excluding pass-through revenue, and a portion of the revenue from contracts with customers of the Asset Management segment, as reported in APA's financial accounts.

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

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

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

3.3.2.3 Debt raising costs

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

The cost is recorded as part of the Table “2.4.1 Shared costs” which then flows through to “Table 2.1 Statement of Pipeline Revenue and Expenses”.

3.4. Statement of Pipeline Assets

Service providers are required to provide a *Statement of Pipeline Assets* for the Pipeline in Table 3.1 of the financial reporting template. The Statement of Pipeline Assets provides an overview of the assets utilised in the pipeline operations.

The Depreciation and Regulatory Asset Base calculations in Table 3.1 of the financial reporting template are based on calculations per the RFM.

The light regulation reporting has compiled with the 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.

3.4.1. Asset capitalisation principles

Consistent with Section 3.1 above, all capital expenditure is captured in the 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 pipeline via the cost allocation drivers described in Section 3.3.2.

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

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

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

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

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

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:

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

3.4.2. Depreciation principles

Depreciation principles set out the basis on which pipeline assets and shared supporting assets are depreciated. Depreciation has been calculated consistently based on the asset lives principles in Sections 3.2.3 and 3.2.5 of the guideline, as well as rule 89 of the NGR (depreciation criteria). Assets are depreciated based on asset lives set out in Table 3.1.1. These are based on a range of lives for asset classes set out in Appendix 1 to the Guideline.

For the purposes of preparing the *Statement of Pipeline Revenues and Expenses*, the depreciation expense has been determined in accordance with the RFM notwithstanding whether the pipeline has been subject to a regulatory determination.

Unless otherwise allowed in the RFM for the *Statement of Pipeline Revenue and Expenses* and the calculation of the RAB value, depreciation is considered to mean straight line depreciation consistent with the method prescribed under AASB 116. The depreciation calculated is to be the regulatory depreciated (based on the RAB). Actual depreciation has been reflected in the template, not forecast depreciation.

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

The useful life of the asset and the reason for choosing this useful life is disclosed in Table 3.1.1 of the financial reporting template. These are consistent with asset life principles in Section 3.2.3 of the Guideline and rule 89 of the NGR. For other depreciable pipeline asset classes and for shared supporting assets, APA has applied depreciation principles in line with the statutory reporting, which is in accordance with the AAS.

Due to operation of the RFM, the capital expenditure additions reported in Table 3.1 (which are reflected in the RFM as Nominal Capex) are inclusive of half-year WACC.

3.4.3. Disposals

Disposals are recorded as proceeds received when an asset is disposed. Disposals in Table 3.1 are not equal to cost – it represents the nominal proceeds received.

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

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

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

3.4.4. Carrying value review principles

APA assesses for statutory purposes, reported book values of property, plant and equipment, intangibles and goodwill, for impairment annually. Assets other than goodwill that have previously reported a statutory

impairment have been included in the reporting template (if applicable). No impairment for statutory purposes has been recorded to date by the service provider subject to light regulation.

No separate carrying value review has been undertaken using light regulation assumptions as it contradicts the regulatory regime that an asset would be impaired under the regulatory framework.

3.4.5. Shared support assets

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

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

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

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

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

As reflected in Table 3.2.1 of the reporting template, the reported amounts represent APA's capital expenditure and the pipeline's share of support assets, attributable to the period during which the pipeline was owned by APA, commencing from the date of acquisition or commissioning, as applicable.

3.4.6. AASB 16 Leases

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

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

On adoption of AASB 16 as at 1 July 2019, the net written down value (WDV) of the Right of Use (RoU) asset was added as capital additions in the Statement of Pipeline Assets and the RCM. No gross values nor accumulated depreciation was included as part of the transition amounts on 1 July 2019.

Reporting of leases in the Statement of Pipeline Assets

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

The depreciation expense reported for leased assets, has been determined in accordance with the RFM (refer to section 3.4.2). In the RFM, depreciation expense commences the year after the asset was capitalised.

AASB 16 reporting in the Recovered Capital Methodology calculation

For FY20 the RoU asset has been included as a 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 (FY21 onwards): the opening RoU gross asset values are included in the RCM.

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

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

3.5. Asset valuation based on the regulatory asset base approach

In preparing the *Statement of Pipeline Assets*, services providers are to report asset values based on the RAB value as specified in Table 3.1.

The RAB value that is reported in the *Statement of Pipeline Assets* is the opening RAB value rolled forward to the relevant reporting year.

3.5.1. Establishing the opening RAB value

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

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

Approach to establishing the opening asset value

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

3.5.2. Rolling forward the RAB value

The NGR sets out rules for the roll forward of the RAB value for a covered pipeline. In order to provide interpretation and further guidance the AER published Roll Forward Material on how service providers full of and light regulation principles are to roll forward the pipeline's RAB value.

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

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

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

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

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

3.5.3. Indexation and CPI escalations used

In accordance with rule 89 of the NGR, the AER permits the indexation to be applied to the RAB value.

Indexation is to be applied to the RAB value based on CPI All Capital Cities Weighted average published by the ABS calculated consistent with the end date assumed for the RAB value (e.g. CPI calculated using June quarter index value for 30 June RAB value).

4. Asset value determined using the recovered capital method

4.1. Requirement to report RCM

In accordance with the Guideline, where a RAB value has not been established through an access arrangement, service providers are required to determine a pipeline asset value based on a recovered capital methodology (RCM) value and disclose their calculation of this value in Table 4.1 of the financial reporting template. For the purposes of this section, a RAB established through an access arrangement includes a RAB established through a determination made by the AER, by a determination under the Gas Code, or otherwise in accordance with any Commonwealth, State or Territory legislation. As a RAB value has not been established for the KKP by any of these methods, an RCM value is necessary for KKP.

4.2. Overview

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

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

Column totals may not add due to rounding.

4.3. Sources of information

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

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

4.3.1. Original construction cost information

Assets constructed by APA

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

Assets acquired by APA

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 are recorded at the original cost of the asset.

4.3.2. Revenue and operating expenditure

For as long as the service provider has been part of the APA Group, 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 owners, 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 template of the light regulated 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 the individual service provider. For the purposes of reporting in accordance with the Guideline for light regulation pipeline services, the operating expenditure incurred at the divisional or corporate level has been allocated to individual service providers.

Corporate costs during period of APA Group ownership

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

In preparing this financial information, APA has allocated the appropriate amount of corporate costs to be borne by each service provider in accordance with a revenue-based allocation approved by the AER under relevant Access Arrangements, for allocation of shared corporate costs.

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

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

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

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

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

4.3.3. Shared support assets

APA reports its total shared support assets (e.g. share 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 its financial systems.

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 ratio of attributed shared corporate costs to total APA corporate costs for the reporting period:

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

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 3.2.1 of the reporting template.

Shared leased assets

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

4.3.4. Return on capital

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

4.3.5. Net tax liabilities

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

1. Staring 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 liabilities were 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 next tax liabilities as they arise.

4.3.6. Negative residual value

The reporting template provides for a negative residual value to be recorded, for those assets having an RCM, to account for end-of-life decommissioning and reclamation costs. This is applicable for KKP.

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 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.

4.4. Estimates

Due to the age, the nature of the pipeline acquisition and the lack of historical information, it was necessary to estimate inputs into the RCM calculations of the pipelines.

For those 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;
- 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;
- fixed assets registers (based on the "as commissioned" method) have been relied upon to report the capital expenditure additions. "As incurred" capital expenditure was not available, as historical capital work in progress records were not provided by the previous owners, or where there were limitations in obtaining this data from historical finance system; and
- most capital expenditure on pipeline assets is "stay-in-business" capital expenditure. This is capital expenditure of a minor, routine nature, which is generally completed in the same fiscal year in which it commences – that is, the "as incurred" amount will equal the "as commissioned" amount. For this reason, APA considers that using "as commissioned" capital expenditure is a reasonable approach to estimating "as incurred" capital expenditure. Projects routine in nature which are generally completed in the same fiscal year.

4.4.1. Estimates for Kalgoorlie Kambalda Pipeline

RCM value calculated for the KKP includes estimates:

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

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

4.5. Updates

4.5.1. 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 (p.20) 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 calculation, through the Net Tax Allowance calculation – where the Return on Debt was considered to be tax deductible, the amount of interest capitalised as part of the asset value is not considered to be deductible for tax calculation purposes.

4.5.2. Update – 2023 published information

As per the Guideline, the RCM value must be determined when the cost of construction of the pipeline and pipeline assets is incurred. When reconstructing the RCM value of pipelines, due to limitations in obtaining historical capital work in progress records, capital expenditure additions were sourced from fixed asset registers (assets were recognised "as commissioned"). For consistency purposes, APA continues to source capital expenditure additions from fixed asset registers, despite the availability of capital work in progress records.

As per verbal discussions with the ERA and APA and re-confirmation provided by APA (via email on 11th of July 2023), from FY23 onwards, capital expenditure additions in the RCM calculation will be as follows:

- For pipeline assets, capital expenditure will be reported "as incurred".
- For shared support assets and shared leased assets, capital expenditure will be reported "as commissioned".

The above adjustment is not applicable to the KKP, APA's only pipeline located in Western Australia subject to the part 7 regime, as capital additions in the RCM calculation as at 30 June 2022, were accounted for in accordance with the requirements detailed above.

5. Weighted average price information

The KKP is not required to report weighted average price (WAP) information under the Guideline for the historical and current reporting period.

This is due to the nature of services provided on the pipeline and the limited number of contracted users. In accordance with the Guideline, WAP information is only required where there are more than two users of a particular service within the reporting period. As KKP did not meet this threshold, WAP reporting is not applicable for the historical and current reporting period, consistent with Rule 556(3) of the NGR.

5.1. Exempt services

Pursuant to the 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 ERA at least 20 business days before the date required for publication certifying this.

These provisions are intended to maintain the confidentiality of users on the pipelines with limited customers numbers.

For the KKP, APA has determined that all relevant services are exempt under these provisions. APA has:

- Notified the ERA in accordance with Rule 556(3); and
- Listed the exempt 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.

5.2. 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.

5.2.1. Transportation services

Firm forward haul

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

KKP is currently a single direction pipeline, therefore, the reported amounts for firm forward haul service relate to one direction only.

Firm services in the Laterals consist of a capacity charge (Lateral Capacity Charge) and an operating and maintenance charge (the Lateral O&M Charge).

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 bi-directional 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 bi-directional 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. [2]

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.

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.

As there is only one receipt point on the KKP there are no Backhaul services available.

5.2.2. Stand-alone firm compression services

The KKP does not offer stand-alone compression services.

5.2.3. 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 the 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.

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

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

The KKP does not offer Firm Storage, Firm Park or Firm Park and Loan services.

5.2.4. 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.

The KKP does not offer Imbalance or Unauthorised Overrun charges.

5.2.5. 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.

The KKP does not offer Auction service charges.

A.1 WACC Hierarchy

A1.1 Applying the Guideline WACC hierarchy

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

The KKP has not been subject to full regulation. Accordingly, not ERA WACC determination applies to this pipeline.

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

2013 AER Rate of Return of Guideline

The 2013 Rate of Return Guideline was issued in December 2013. In accordance with the Guidelines, it applied for the 2014-15 fiscal year reporting periods and subsequent years until the 2018 Rate of Return Instrument was applicable for the reporting period from 2019-20 onwards. The AER December 2013 Rate of Return Guideline specifies:

- the weighting formula, applying a gearing ratio of 0.6 (p.9)
- the use of the Sharpe-Linter CAPM (SLCAPM) as the foundation model for determining the cost of equity; (p.13)
- the risk-free rate is estimated as the yield on 10-year Commonwealth Government Securities, measured over a period of 20 business days over a period as close as practically possible to the commencement of the regulatory control period;[3] (p.15)
- an equity beta of 0.7; (p.15)
- the Market Risk Premium (MRP) will be a point estimate based on the AER's regulatory judgement (p.16);
- if the starting point determined by the application of the foundation model is too high or too low, "the point estimate will be changed by an amount informed by the other information (using the AER's regulatory judgement)"
- "the allowed return on debt using a trailing average portfolio approach following the completion of a transitional arrangement period" (p.19) (note that the Light Regulation Guideline requires an "on the day" cost of debt to be determined);
- The return on debt is to be estimated "Using the published yields from an independent third-party data service provider" (p.21);
- "Using a credit rating of BBB+" (p.21);
- "Using a term to maturity of debt of 10 years" (p.21); and
- The 2013 Rate of Return (RoR) Guideline goes on (pp. 21-23) to specify the criteria under which an averaging period is to be established. However, the Light Regulation Guideline specifies that the averaging period is to be the last 20 business days of the year preceding that for which the cost of debt is to be determined.

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

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

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

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

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

AER 2018 Rate of Return Instrument

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

The AER 2018 Rate of Return Instrument specifies:

- the weighting formula, applying a gearing ratio of 0.6; (para. 3(d))
- that the cost of equity is to be calculated using the Sharpe-Lintner Capital Asset Pricing Model (para 4) using:
    - A beta value of 0.6 (para. 4(b));
    - A Market Risk Premium of 6.1 per cent (para. 4(c));
- the risk-free rate of return is to be calculated as a simple average of the daily yields to maturity of Commonwealth government securities, converted into an effective annual rate (para. 5);
- the criteria under which the risk-free rate averaging period is to be nominated (para. 8). However, the Light Regulation Guideline specifies that the risk-free rate is to be observed over the last 20 business days of the year preceding that for which the cost of equity is to be determined.
- the cost of debt is to be calculated using a 10-year trailing average (para. 9). However, the Financial Reporting Guideline for Light Regulation Pipelines requires an on-the-day cost of debt to be applied. To accommodate this requirement, APA has applied the current year cost of debt advised by the AER as part of the annual tariff variation for its fully regulated pipelines. This will not necessarily be calculated over the last 20 trading days of the year prior to which the cost of debt is to be applied.
- the cost of debt is to be estimated using a BBB+ credit rating, to be synthesised by weighting a data provider's A curve by 1/3 and their BBB curve by 2/3, for debt with a 10-year yield to maturity (para 11). To accommodate this requirement, APA has applied the current year cost of debt advised by the AER as part of the annual tariff variation for its fully regulated pipelines.
- the criteria under which a separate averaging period is to be nominated by the service provider for the purposes of calculating the return on debt (Paras. 23 and 24). However, the Light Regulation Guideline specifies that the averaging period is to be the last 20 business days of the year preceding that for which the cost of debt is to be determined.
- the value of imputation credits is set at a value of 0.585 (para. 27).

Under the 2018 rate of return instrument, the relevant WACC values applicable to the 2019-20 to 2021-22 regulatory years would be calculated as follows:

Cost of equity:	2019-20	2020-21	2021-22
Risk free rate	1.3860%	0.9245%	3.78375%
Beta	0.6	0.6	0.6
Market Risk Premium	6.1%	6.1%	6.1%
Cost of equity	5.046%	4.5845%	7.4438%
On-the-day cost of debt[4]	4.2644%	2.8510%	2.9226%
Gearing ratio	60%	60%	60%
Tax rate	30%	30%	30%
Value of imputation credits (Gamma)	58.5%	58.5%	58.5%
Nominal Vanilla WACC	4.5770%	3.5444%	4.7311%

[4] Letters from AER dated 22 May 2019, 21 May 2020 and 21 April 2022 advising annual return on debt estimates for 2019-20 and 2020-21 for Roma Brisbane Pipeline and Amadeus Gas Pipelines.

AER 2022 Rate of Return Instrument

The 2022 Rate of Return Instrument was issued in February 2023. In accordance with the Light Regulation Guideline, it will apply for the 2022-23 fiscal year and subsequent years until a new Instrument is promulgated.

The AER 2022 binding Rate of Return Instrument specifies:

- the weighting formula, applying a gearing ratio of 0.6; (para. 3(d))
- that the cost of equity is to be calculated using the Sharpe-Lintner Capital Asset Pricing Model (para. 4) using:
  - A beta value of 0.6 (para. 4(b));
  - A Market Risk Premium of 6.2 per cent (para. 4(c));
- the risk-free rate of return is to be calculated as a simple average of the daily yields to maturity of Commonwealth Government Securities, converted into an effective annual rate (para. 5);
- the criteria under which the risk-free rate averaging period is to be nominated (para. 8). However, the Light Regulation Guideline specifies that the risk-free rate is to be observed over the last 20 business days of the year preceding that for which the cost of equity is to be determined.
- the criteria under which a separate averaging period is to be nominated by the service provider for the purposes of calculating the return on debt (paras. 23 and 24). However, the Light Regulation Guideline specifies that the averaging period is to be the last 20 business days of the year preceding that for which the cost of debt is to be determined.
- the value of imputation credits is set at a value of 0.57 (para. 27)

Under the AER 2022 binding rate of return instrument, the relevant WACC values applicable to the 2022-23 to 2025-2026 regulatory year would be calculated as follows:

Cost of equity:	2022-23	2023-24	2024-25	2025-26
Risk free rate	3.9325%	4.2505%	4.2079%	4.8279%
Beta	0.6	0.6	0.6	0.6
Market Risk Premium	6.2%	6.2%	6.2%	6.2%
Cost of equity	7.6525%	7.9705%	7.9280%	8.5479%
On-the-day cost of debt[5]	3.9999%	6.3441%	5.8301%	5.8349%
Gearing ratio	60%	60%	60%	60%
Tax rate	30%	30%	30%	30%
Value of imputation credits (Gamma)	57.%	57%	57%	57%
Nominal Vanilla WACC	5.4609%	6.9947%	6.6692%	6.9201%

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

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

Year ended June	Determination	Cost of Equity	Cost of Debt	WACC	Gamma
2019	Victorian Transmission System 2018-22	7.30%	4.72%	5.75%	40%
2018	Roma Brisbane Pipeline 2017-22	7.00%	4.64%	5.58%	40%
2017	Amadeus Gas Pipeline 2016-21	7.10%	5.56%	6.18%	40%

[5] As a proxy to applying the detailed procedure in the 2022 Rate of Return Instrument, the APA light regulated assets have applied the annual return on debt estimate sourced from the AER's advice on the current year cost of debt for a regulated pipeline within the APA Group.

2016 2015 2014	Victorian Transmission System 2013-17	8.02%	6.68%	7.22%	25%
2013	Roma Brisbane Pipeline 2012-17	7.75%	7.01%	7.31%	25%
2012	Amadeus Gas Pipeline 2011-16	10.33%	9.33%	9.73%	25%
2011 2010 2009 2008	Victorian Transmission System 2008-12	12.29%	9.38%	10.55%	50%
2007	Roma Brisbane Pipeline 2006-11	11.70%	6.84%	8.84%	50%
2006 2005	APA GasNet 2003-07 (2004 Revisions)	11.40%	7.28%	8.93%	50%
2004 2003	Moomba Sydney Pipeline 2004-09	11.35%	6.26%	8.30%	50%
2002	Moomba Adelaide Pipeline 2002-05	12.55%	6.81%	9.10%	50%
2001 2000	Central West Pipeline 2000-10	15.38%	7.58%	10.55%	50%
1999 1998	GasNet 1998-2002	13.20%	7.20%	10.70%	50%

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

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

The update process is described below.

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

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

Level 4 of the hierarchy will not apply.

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

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

A1.2 Applying the WACC hierarchy – summary

In practice the WACC hierarchy will be applied differently to different pipelines, depending on the date and duration of their last full regulation determination, the date each became subject to light regulation, the presence of an ACCC/AER Rate of Return Guideline or Instrument, etc. This is summarised below for KKP[6]:

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

Fiscal year ended June	KKP
2026	2
2025	2
2024	2
2023	2
2022	2
2021	2
2020	2
2019	2, 3
2018	2, 3
2017	2, 3
2016	2, 3
2015	2, 3
2014	3
2013	3
2012	3
2011	3
2010	3
2009	3
2008	3
2007	3
2006	3
2005	3
2004	3
2003	3
2002	3
2001	3
2000	3
1999	3
1998	3
1997	5
1996	5

A1.3 Updating the reported WACC

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

APA has adjusted the Final Decision cost of equity, cost of debt and WACC for movements in the risk-free rate between that specified in the Final Decision and the average of the yields on 10-year Commonwealth of Australian securities[7] calculated over the last 20 trading days of the year prior to the WACC being applied. This approach is demonstrated for the adjusted Vanilla WACC values below:

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

Year ended June	Determination	Determination Risk Free Rate	RBA Risk Free Rate Last 20 trading days	Movement in Risk Free Rate	Reported Vanilla WACC	Adjusted Vanilla WACC
2026	2022 Rate of Return Instrument		4.8279%			6.92%
2025	2022 Rate of Return Instrument		4.0580%			6.67%
2024	2022 Rate of Return Instrument		4.2505%			6.99%
2023	2022 Rate of Return Instrument		3.9325%			5.46%
2022	2018 Rate of Return Instrument		3.7838%			4.73%
2021	2018 Rate of Return Instrument		0.9245%			3.54%
2020	2018 Rate of Return Instrument		1.3860%			4.58%
2019	Victorian Transmission System 2018-23	2.730%	2.697%	-0.033%	5.75%	5.72%
2018	Roma Brisbane Pipeline 2017-22	2.440%	2.408%	-0.032%	5.58%	5.55%
2017	Amadeus Gas Pipeline 2016-21	2.570%	2.109%	-0.461%	6.18%	5.72%
2016	Victorian Transmission System 2013-17	3.220%	2.988%	-0.232%	7.22%	6.99%
2015	Victorian Transmission System 2013-17	3.220%	3.703%	0.483%	7.22%	7.70%
2014	Victorian Transmission System 2013-17	3.220%	3.531%	0.311%	7.22%	7.53%
2013	Roma Brisbane Pipeline 2012-17	2.950%	2.994%	0.044%	7.31%	7.35%
2012	Amadeus Gas Pipeline 2011-16	5.530%	5.155%	-0.375%	9.73%	9.36%
2011	Victorian Transmission System 2008-12	6.290%	5.326%	-0.964%	10.55%	9.59%
2010	Victorian Transmission System 2008-12	6.290%	5.567%	-0.723%	10.55%	9.83%
2009	Victorian Transmission System 2008-12	6.290%	6.587%	0.297%	10.55%	10.85%
2008	Victorian Transmission System 2008-12	6.290%	6.205%	-0.085%	10.55%	10.46%
2007	Roma Brisbane Pipeline 2006-11	5.700%	5.738%	0.038%	8.84%	8.88%
2006	APA GasNet 2003-07 (2004 Revisions)	5.570%	5.141%	-0.429%	8.93%	8.50%
2005	APA GasNet 2003-07 (2004 Revisions)	5.570%	5.845%	0.275%	8.30%	9.20%
2004	Moomba Sydney Pipeline 2004-09	5.350%	4.803%	-0.547%	8.30%	7.75%
2003	Moomba Sydney Pipeline 2004-09	5.350%	6.017%	0.667%	9.10%	8.97%
2002	Moomba Adelaide Pipeline 2002-05	5.610%	5.897%	0.287%	10.84%	9.39%
2001	Central West Pipeline 2000-10	6.380%	6.175%	-0.205%	10.84%	10.63%
2000	Central West Pipeline 2000-10	6.380%	6.216%	-0.164%	10.84%	10.68%
1999	GasNet 1998-2002	5.350%	5.590%	0.240%	10.70%	10.94%
1998	GasNet 1998-2002	5.350%	7.151%	1.801%	10.70%	12.50%
1997	GasNet 1998-2002	5.350%	8.928%	3.578%	10.70%	14.28%
1996	GasNet 1998-2002	5.350%	8.847%	3.497%	10.70%	14.20%

Notwithstanding that KKP is not governed by the ACCC/AER, the WACC methodology described above has been applied to KKP from the commencement of the ERA Guideline - October 2019 and continues to be applied for consistency and comparability purposes.

A1.4 Tax liabilities in Table 1.1.1

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

The net tax liability is therefore the amount of revenue that must be allowed such that, when tax is levied on the total taxable income, the remaining after-tax amount is equal to the allowed return on equity. As this requires a revenue allowance to be provided for the payment of tax, on which tax must be paid, there ensues a "tax on tax" multiplier effect calculated at a rate of t/(1-t). For $100 of after-tax income to be earned, allowed taxable income must be [$100+$100 x (30%/(1-30%))] $142.86, the tax on which is ($142.86 x 30%) $42.86, leaving after-tax revenue of $100.00.

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

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

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

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

Table 1.1.1 Financial Summary applies the same tax liability from Row 15 of the template to both the Building Block revenue calculation on Row 22 and to the RCM calculation in Row 31 (where applicable). However, the foundations of the Building Block Revenue calculation and the RCM calculation are sufficiently different that one would not expect the same tax liability to be produced by these two different approaches.

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

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

[8] Note that this is impacted by the indexation of the regulatory asset base.