ATTACHMENT 1.3
COST ALLOCATION METHOD 2017

ATCO 2020-24 PLAN

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7	23/01/2015	Allan Hudson	Revise document to include a section on the treatment of disposals
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9	07/02/2017	Allan Hudson	Revise document for 2016 procedure change
10	07/02/2018	Allan Hudson	Revise document for 2017 procedure change

Review and authorisation

Internal review of the Cost Allocation Method (**CAM**) is undertaken on an annual basis in preparation for the production of the year-end regulatory accounts.

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1. Background

ATCO Gas Australia owns, operates and maintains three reticulated gas networks in Western Australia:

- the Mid-West and South-West gas distribution system, which serves Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth greater metropolitan area including Mandurah;
- Albany; and
- Kalgoorlie.

These combined networks cover approximately 14,000 km of pipeline, connecting more than 750,000 end users to natural gas and LPG.

Of the three gas distributions networks, only the Mid-West and South-West gas distribution system is a covered pipeline as defined under the *National Gas Law (**NGL**)*. Being a covered pipeline[1], an access arrangement (**AA**) review is required approximately every five years. The review is conducted by the Economic Regulation Authority (ERA).

The AA review determines the tariffs for the reference services provided by the covered pipeline; therefore ATCO Gas Australia must isolate the costs that relate to the covered pipeline and present them in a format that can be scrutinised by the ERA and independently reviewed. The ERA may also issue a regulatory information notice outside of the AA review process, requesting information about capital and operating expenditure.

To meet these requirements, the Finance business unit has implemented a process to prepare annual regulatory accounts, which are provided to the ERA each year following finalisation of ATCO Gas Australia's statutory accounts[2]. The regulatory accounts submitted to the ERA cover revenue and expenditure associated with pipeline services for the preceding calendar year.

1.1 Purpose

The Cost Allocation Method (CAM) summarises the methodology used to compile the regulatory accounts. The CAM also outlines the process required under rule 93[3] of the *National Gas Rules* (***NGR***) to allocate costs between the reference and non-reference services provided in relation to the covered pipeline. Both reference and non-reference services are pipeline services but only reference services are specified in the AA.

1.2 Scope

This document explains ATCO Gas Australia's method to classify expenditure as;

- relating to the covered pipeline or uncovered pipelines;
- relating to reference or non-reference services;
- reclassifying capital contributions on a deferred revenue basis to a cash basis;
- reclassifying accounting revenue as capital contributions according to regulatory definitions; and
- capital expenditure recovered via user specific charges.

The CAM is premised on the acceptance of the statutory accounting information as being complete and correct, and does not deal with how that information is prepared.

1 A pipeline is 'covered' where the National Competition Council deems it should be classified as 'covered'. The *NGL*(WA) then prescribes which pipelines are covered for the purposes of third party access regulation.

2 The regulatory accounts are a component of the statutory accounts, therefore while the regulatory accounts are developed in tandem with the statutory accounts, they are not provided to the ERA until the statutory accounts have been signed off by the Board.

3 Refer to Appendix 8.2 for rule 93 of the *NGR* (Version 2828), 5 November 2015.

2. Regulatory Framework

Clause 141(a) of the NGL requires that a covered pipeline service provider must prepare, maintain and keep "separate accounts in respect of pipeline services provided by means of every covered pipeline owned, operated or controlled by the covered pipeline service provider".

In determining total revenue as part of an AA review under rule 76[4] of the NGR, all expenditure related to uncovered pipeline networks (Albany and Kalgoorlie) and non-pipeline service provider entities must be excluded as it does not relate to the covered pipeline.

The NGR provides guidance on the covered pipeline expenditure that should be included in the calculation of total revenue, and how it is allocated between reference and other services. Relevant rules are listed below:

- Rule 93(2)[5] of the *NGR* states: "costs are to be allocated between reference and other services".
- Under rule 91(1)[6] of the *NGR*, operating expenditure must be "incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services."
- Capital expenditure can only be included in the Regulated Asset Base if it meets the requirements of rule 79[7] of the *NGR*.
- Under rule 82(2)[8] of the *NGR*, capital contributions must be netted off against regulated capital expenditure as the capital contributions are received.
- Capital expenditure is recorded on a cash basis on the principle that once the cash has been spent, a return must be earned on that money and included in total revenue under rule 76[9] of the *NGR*.
- Under section 55(e)[10] of the *NGL*(WA), the ERA has the power to require an audit of the regulatory set of accounts under section 55(e) of the *NGL*(WA). However, experience is that the ERA informally requests a review of the regulatory accounts rather than an audit under section 55(e) of the *NGL*(WA).

4 Refer to Appendix 8.2 for rule 76 of the *NGR* (Version 28),5 November 2015.

5 Refer to Appendix 8.2 for rule 93 of the *NGR* (Version 28),5 November 2015.

6 Refer to Appendix 8.2 for rule 91 of the *NGR* (Version 28),5 November 2015.

7 Refer to Appendix 8.2 for rule 79 of the *NGR* (Version 28),5 November 2015.

8 Refer to Appendix 8.2 for rule 82(2) of the *NGR* (Version 28),5 November 2015.

9 Refer to Appendix 8.2 for rule 76 of the *NGR* (Version 28),5 November 2015.

10 Refer to Appendix 8.3 for section of the *NGL*(WA),15 March 2015.

3. Network Services and Expenditure

The regulatory accounts show revenue and costs in respect of pipeline services provided by means of the covered pipeline; the Mid-West and South-West gas distribution system. The ERA uses the regulatory accounts as part of its AA review to determine trends in reference service costs and also to compare approved "Total Revenue " to actual operating and capital expenditure. The regulatory accounts also show the allocation of pipeline services revenue and costs between **reference and non-reference services** (as required by *NGR* 93(2)) to allow comparison by the ERA to amounts in an access arrangement review used to calculate reference service tariffs.

Reference services expenditure is ATCO Gas Australia's total expenditure as calculated for the statutory accounts, minus expenditure relating to non-pipeline service provider entities, minus expenditure on uncovered pipeline services (Kalgoorlie and Albany networks), minus expenditure from non-reference services, (see Figure 1). Reference services revenue is distinguished in the same manner.

Figure 1 Calculation of reference services expenditure

3.1 Basis of statutory reporting

For the year ended 31 December 2015 and subsequent years, the statutory accounts that form the basis of the Annual Regulatory Report are the ATCO Gas Australia Limited Partnership Consolidated Group (AGALP) Annual Financial Report. Prior to 2015, the Annual Regulatory Report was based on the WA Network Holdings Pty Limited Consolidated Group (WANH) statutory accounts. The AGALP level incorporates the legal entities within the WANH level of entities plus additional corporate non-pipeline service provider entities.

3.2 Reference services

Reference services are divided into two categories: pipeline haulage services and ancillary reference services. The prices for both these types of services are determined during the access arrangement review, and the costs of providing these services are recovered via regulated tariffs.

3.2.1 Pipeline haulage services

ATCO Gas Australia offers five pipeline haulage services as reference services described below. Costs relating to the provision of these services in total will be included in regulatory accounts.

3.2.1.1 Service A1

(a) Service A1 is a Pipeline Service by which a User may take delivery of Gas at a Delivery Point on the ATCO Gas Australia Gas Distribution System, where the following preconditions are met:

(i) the Prospective User submits an Application and at that time:

(A) it is reasonably anticipated that the Prospective User will take delivery of 35 terajoules or more of Gas during each Year of the Haulage Contract; and

(B) the Prospective User requests a Contracted Peak Rate of 10 gigajoules or more per hour; and

(ii) the Prospective User requests User Specific Delivery Facilities.

3.2.1.2 Service A2

(a) Service A2 is a Pipeline Service by which a User may take delivery of Gas at a Delivery Point on the ATCO Gas Australia Gas Distribution System, where the following pre-conditions are met:

(i) the Prospective User submits an Application and at that time:

(A) it is reasonably anticipated that the Prospective User will take delivery of 10 terajoules or more of Gas, but less than 35 terajoules of Gas, during each Year of the Haulage Contract; or

(B) the Prospective User requests a Contracted Peak Rate of less than 10 gigajoules per hour; or

(C) an Above 10 TJ Determination has been, or is likely to be, made under the Retail Market Rules; and

(ii) the Prospective User requests User Specific Delivery Facilities.

3.2.1.3 Service B1

(a) Service B1 is a Pipeline Service by which a User may take delivery of Gas at a Delivery Point on the ATCO Gas Australia Gas Distribution System, where the following pre-conditions are met:

(i) the Prospective User submits an Application and at that time either (or both):

(A) it is reasonably anticipated that the Prospective User will take delivery of less than 10 terajoules of Gas during each Year of the Haulage Contract; or

(B) the Prospective User requests a Contracted Peak Rate of less than 10 gigajoules per hour; and

(ii) the Prospective User requests User Specific Delivery Facilities; or

(iii) may take delivery of Gas at a Delivery Point on the Medium Pressure/Low Pressure System using Standard Delivery Facilities which include a Standard 18 m^3/h Meter or a standard Meter with a badged capacity of more than 18 m^3/h.

3.2.1.4 Service B2

Service B2 is a Pipeline Service by which a User may take delivery of Gas at a Delivery Point on the Medium Pressure/Low Pressure System using Standard Delivery Facilities which include a Standard 12 m^3/hr Meter or a standard Meter with a badged capacity of less than18 m^3/h.

3.2.1.5 Service B3

Service B3 is a Pipeline Service by which a User may take delivery of Gas at a Delivery Point on the Medium Pressure/Low Pressure System using Standard Delivery Facilities which include a Standard 8 m^3/hr Meter or a Standard 10 m^3/hr Meter or a standard meter with a badged capacity of less than 12 m^3/hr.

3.2.2 Ancillary reference services

In addition to the pipeline haulage reference services there are other specific services that may be requested by the market. These are known as ancillary reference services. ATCO Gas Australia offers five ancillary reference services. Ancillary reference tariffs reflect the actual cost to ATCO Gas

Australia of providing each service. Costs relating to the provision of these services in total will be included in regulatory accounts. The five reference ancillary services are defined below.

- **Apply meter lock** – where a lock is applied to a valve that comprises part of the Standard Delivery Facility to prevent gas from being received at the relevant delivery point. This service is available for reference service B2 and B3 end users.

- **Remove meter lock** – where a lock that was applied to a valve to prevent gas from being received at the relevant delivery point is removed. This service is available for reference service B2 and B3 end users.

- **Deregistration** – where a delivery point is permanently deregistered permanently removing the delivery point in accordance with the Retail Market Rules and removing the delivery point from the delivery point register. This service is available for all reference service users.

- **Disconnection service** – where a delivery point is physically disconnected and prevents gas from being delivered to the delivery point. This service is available in respect of delivery points at which a user is provided with reference service B2 or B3.

- **Reconnection service** – where the delivery point is reconnected to allow gas to be delivered to the delivery point. This service is available in respect of delivery points at which a user is provided with reference services B2 or B3.

3.3 Non-reference services

ATCO Gas Australia negotiates commercial terms and conditions, including prices, for pipeline services that are not reference services.

Examples of non-reference services provided at a standard rate per unit are:

- **Off cycle reads (special read) service** – where a meter reading is performed on a basic meter outside of the normal reading schedule (cycle);
- **Off cycle reads (investigations) service** – where a meter address/location is checked including reading the basic meter;
- **Disconnect service in street** – where the retailer initiates disconnection of supply when access to the meter is not possible, or endangers the safety of the field personnel, and disconnection of supply can only be affected by disconnecting the service pipe in the street (or closing the isolation valve.) If there are safety concerns, the network operator may also initiate the disconnection and then advise the retailer;
- **Reconnect service in street** – where the retailer requests reconnection of gas supply, which was previously disconnected in the street;
- **New connection request (cancellation service)** - where the retailer cancels a new connection service order; and
- **Meter retake and test service (completed)** – where the retailer initiates a meter test to see if the meter performs within allowable limits. The successful completion of this service order will result in a meter physically replaced at the premise.

Additional non-reference services are provided at prices that vary by task. This could involve demolition of metersets or changing gas distribution facilities at the request of third parties.

3.4 Uncovered pipeline services

An uncovered pipeline service is any service related to the Albany and Kalgoorlie networks, both of which are not covered networks as defined under the *NGL*.

4. Responsibilities for implementation and compliance

The information below sets out the relevant responsibilities within ATCO Gas Australia to ensure the internal monitoring, reporting and application of the CAM is conducted on an ongoing basis.

4.1 Corporate and Legal business unit

- Review the CAM to ensure that allocation methods used comply with the National Gas Law and Rules.

4.2 Regulatory business unit

- Review the CAM to ensure that allocation methods appropriately reflect those used in the production of regulatory accounts.
- Manage liaison with the ERA.

4.3 Finance business unit

- Prepare and maintain the CAM to ensure that allocation methods appropriately reflect those used in the production of regulatory accounts.
- Prepare regulatory accounts and develop supporting working papers in accordance with the CAM.
- Recommend and implement any changes required to account structures, to ensure compliance with the regulatory framework.
- Keep and maintain sufficient records to allow reconciliation of regulatory accounts to statutory accounts.
- Ensure IT system changes meet regulated account information requirements.
- Arrange and manage the annual external review of regulated accounts.
- Provide data required to complete regulatory accounts:
    - project capital expenditure data by project and location;
    - regulated variable volume maintenance and capital expenditure by activity;
    - capital expenditure costs incurred which are recovered;
    - IT, Fleet and Property plant and equipment capital expenditure; and
    - operating costs by cost centre and UAFG costs.
- Provide a statutory trial balance and other supporting schedules of costs by cost centre, activity and location for operating expenditure and capital expenditure.
- Non-reference service revenue data by general ledger account.
- Calculate overhead cost allocation to capital expenditure.
- Prepare the statutory accounts, which are audited by external auditors.

4.4 Commercial Services business unit

- Provide details of capital contributions and other non-reference charges billed to retailers.
- Supply schedule of ancillary services revenue, gross and net of unregulated revenue.
- Identify activities billed to retailers.
- Schedule of meter lock and meter reading costs for regulated and unregulated networks.

4.5 IT business unit

- Provide IT project detail and basis of cost allocation to unregulated and non-reference services.

4.6 All ATCO Gas Australia staff

- Attribute direct costs and revenue to pipeline services in accordance with the CAM using the correct coding on timesheets (customer service labour), account codes, projects and/or work orders.

4.7 Responsibility for Approval of the CAM

The following authorised personnel approve the CAM:

Pat Donovan	President
Tom Orchard	Financial Controller
Matthew Cronin	General Manager, Regulatory

4.8 External reviewers

ATCO Gas Australia engages independent external auditors to review the regulatory accounts.

4.9 ERA

The ERA will be the primary audience of the regulatory accounts. The ERA has the power to require an audit of the regulatory set of accounts under section 55(e) of the *NGL* (WA). However, experience is that the ERA informally requests a review of the regulatory accounts rather than an audit under section 55(e).

5. Cost allocation

5.1 General Principles

The annual statutory financial report complies with the reporting requirements of the *Corporations Act 2001,* the recognition and measurement criteria specified by all applicable Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Error* and AASB 1048 *Interpretations and Application of Standards*. These accounts and supporting information are relied upon for:

- categorising expenditure as capital expenditure or operating expenditure, and
- allocating direct costs to activities and locations[11].

The capital expenditure and operating expenditure from the statutory financial report is adjusted to compile regulatory accounts. The following general principles are applied to compile regulatory accounts:

- In accordance with rule 93(2) of the *NGR*, "costs are to be allocated between reference and other services as follows":
  - (a) costs directly attributable to reference services are to be allocated to those services; and
  - (b) costs directly attributable to pipeline services that are not reference services are to be allocated to those services; and
  - (c) other costs are to be allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the Australian Energy Regulator (AER).
- Only capital expenditure that meets the requirements of rule 79[12] of the *NGR* is included in regulatory capital expenditure.

11 The exception is that costs allocated between the activities of demolition and deregistration have been reallocated to reflect the full cost of a deregistration.

12 Refer to Appendix 8.2 for the defined rule 79 of the *NGR*.

- Only operating expenditure that meets the requirements of rule 91(1)[13] of the *NGR* is included in regulatory operating expenditure.
- ATCO Gas Australia applies the following principles to avoid double counting of costs in capital expenditure and operating expenditure:
    - a cost will not be attributed and/or allocated more than once;
    - a direct cost will only be attributed to one category of service;
    - an indirect cost is a cost that cannot be directly attributed to either a reference or non-reference service;
    - an indirect cost will only be allocated once among cost centres;
    - the same cost will not be treated as both a direct and an indirect cost;
    - the same cost will only be recovered once through tariffs and charges;
    - non pipeline services costs will be allocated to the non-pipeline services and will be excluded from the recovery of costs through pipeline services' tariffs;
    - the allocation of costs will be determined by the substance of the transaction or event rather than the legal form; and
    - an avoided cost allocation method (or any other method of allocation not specifically referred to within this CAM) is not currently applied to allocate costs or revenues.

The following sections 6, 7 and 8 describe how adjustments are made to the total statutory business accounts to arrive at the values for capital expenditure and operating expenditure per the regulatory accounts. Sections 6, 7 and 8 also describe how costs relating to pipeline services are allocated between reference and non-reference services.

6. Capital expenditure

6.1 Pipeline Services account adjustments

The following amounts are deducted from the statutory capital expenditure to calculate pipeline services capital expenditure:

- Albany network capital expenditure identifiable by location code (uncovered pipeline);
- Kalgoorlie network capital expenditure identifiable by location code (uncovered pipeline);
- Capital contributions received (variable volume & capital projects);
- Plant and equipment capital expenditure related to unregulated networks
- Information technology project capital expenditure related to unregulated networks; and

There is no capital expenditure relating to non-pipeline service provider entities.

6.1.1 Project capital expenditure

Albany and Kalgoorlie network project capital expenditure is separately identifiable and has been removed from the total regulatory capital expenditure as they are uncovered (unregulated) pipelines.

6.1.2 Variable volume capital expenditure

Variable volume capital expenditure is capital expenditure that can be budgeted at a standard rate per unit of activity such as the laying of medium/low pressure mains or installation of standard delivery facilities. Actual costs are recorded when the costs are incurred.

Albany and Kalgoorlie network variable volume capital expenditure is separately identifiable and is excluded from the total regulatory capital expenditure as they are uncovered (unregulated) pipelines.

13 Refer to Appendix 8.2 for the defined rule 91 of the *NGR*.

6.1.3 Plant and equipment capital expenditure

Capital expenditure relating directly to the unregulated networks, Albany and Kalgoorlie, is identifiable by cost centre and excluded from pipeline services capital expenditure.

Cost centres, such as Finance, which provide services to both covered and uncovered pipelines have a proportion of capital expenditure excluded in the same proportion as is excluded for uncovered pipeline operating expenditure (see below).

6.1.4 IT Project capital expenditure

IT project capital expenditure is that capital expenditure relating to IT projects with individual project budgets and excludes telemetry (included as network project capital expenditure) and miscellaneous items of IT hardware such as printers.

An allocation of IT project costs relating to uncovered pipelines are excluded from regulated capital expenditure. Each IT project is evaluated for the best basis on which to allocate costs to uncovered pipelines. Bases include where devices are used, transaction numbers, user numbers and MIRN's (delivery points).

6.1.5 Capitalised interest

Costs related to capitalised interest are removed from total covered pipeline capital expenditure. Capitalised interest is not allowed for regulatory purposes as regulatory assets are recognised on a cash basis as the capital cost is incurred. Regulatory capital expenditure is recognised on a cash basis to reflect the service provider's investment required to be funded.

6.1.6 Capital contributions

The value of capital contributions on a cash received basis is excluded from covered pipeline capital expenditure. Rule 82(2)[14] of the *NGR* specifies only the net capital expenditure (total capital expenditure less the value of the capital contribution) may be included in the covered pipeline asset base.

The access arrangement does not include a tax allowance for the tax on capital contributions in Total Revenue. Therefore, the value of capital contributions excluded from capital expenditure is reduced by the tax component of the capital contribution over the lives of the relevant assets. The proportion of the capital contribution relating to tax for each asset category is contained in Appendix C.

6.2 Non-reference service account adjustments

Under rule 93(2)[15] of the *NGR*, "costs are to be allocated between reference and other services". The sections below describe how regulated capital expenditure is allocated between reference and non-reference services.

6.2.1 Project capital expenditure

Project capital expenditure relates to the provision of reference services and no allocation is made to non-reference services. This is due to the nature of projects which typically relate to the haulage network and thus the provision of haulage reference services.

6.2.2 Variable volume capital expenditure

Variable volume capital expenditure is capital expenditure that can be budgeted at a standard rate per unit of activity such as the laying of medium/low pressure mains or installation of standard delivery facilities. Actual costs are recorded when the costs are incurred.

All variable volume capital expenditure relates to the provision of reference services and thus no allocation is made to non-reference services.

14 Refer to Appendix 8.2 for the defined rule 82 of the *NGR*.

15 Refer to Appendix 8.2 for rule 93 of the *NGR* (Version 28),5 November 2015.

6.2.3 Plant and equipment capital expenditure

An allocation of property, plant and equipment capital expenditure that relates to non-reference services is excluded from reference services capital expenditure.

The proportion of plant and equipment capital expenditure excluded is on two bases. Firstly cost centres that provide non-reference services have a proportion of their capital expenditure excluded based on the proportion of variable volume maintenance costs, excluding sub-contractor costs that relate to non-reference services relative to total variable volume maintenance costs for those cost centres. Sub-contractor costs are excluded on the basis that sub-contractors provide their own assets such as vehicles to provide these services.

Secondly overhead cost centres, such as Finance for example, that provide support for both reference and non-reference services have a proportion of capital expenditure excluded in the same proportion as is excluded for operating expenditure (see section 8 below).

6.2.4 IT project capital expenditure

IT project capital expenditure is that IT capital expenditure relating to IT projects with individual project budgets and excludes telemetry (included as network project capital expenditure) and miscellaneous items of IT hardware such as printers.

An allocation of IT project costs relating to non-reference services is made. Each IT project is evaluated for the best basis on which to allocate costs to non-reference services. Bases include where devices are used, transaction numbers, user numbers and MIRN's (delivery points).

6.3 User specific charge account adjustments

Provision of user specific delivery facilities is part of reference services A1, A2 and B1. Recovery of these costs is by User Specific Charges as part of the reference tariffs for these reference services set out in clauses 1.1(iv), 1.2(iii) and 1.3(iii) of Annexure A of the AA.

Although these costs relate to the provision of a reference service, they need to be separately identified to avoid inclusion in the calculation of tariff revenue related to the provision of other reference service haulage tariffs.

The cost of the user specific delivery facilities includes associated service pipe, regulators, metering and telemetry services.

7. Disposals

Where an asset that formed part of the regulated capital base is disposed of the value to be removed from the regulated capital base will be the disposal proceeds.

To effect the removal of the disposal value from the regulated asset base the disposal proceeds will be offset against capital expenditure for the same asset class in the year of disposal.

8. Operating Expenditure

8.1 Pipeline services account adjustments

The following amounts are deducted from the statutory operating expenditure to calculate pipeline services operating expenditure:

- Albany transactions (uncovered pipeline);
- Kalgoorlie transactions (uncovered pipeline); and
- Operating expenditure incurred by unregulated corporate entities not providing pipeline services.

8.1.1 Albany

Where direct costs for the Albany network are separately identifiable, those costs are removed from the total regulatory operating expenditure as it is an uncovered pipeline.

The proportion of indirect costs not able to be directly attributed to services that relate to the Albany network are calculated by dividing the number of Albany network delivery points by the number of all delivery points. This proportion is multiplied by the total indirect costs not able to be directly attributed to arrive at the indirect costs attributable to services that relate to the Albany network, and thus excluded from the regulatory accounts.

Delivery points are used to allocate the indirect costs of services relating to the Albany network because the number of delivery points is considered to be a good proxy for the costs that drive indirect costs. Indirect costs relate to the governance and management of customers and the network. Delivery points provide a good representation of customers and directly influence the network maintenance and investment required.

8.1.2 Kalgoorlie

Where direct costs for the Kalgoorlie network are separately identifiable those costs are removed from the total regulatory operating expenditure as it is an uncovered pipeline.

The proportion of indirect costs not able to be directly attributed to services that relate to the Kalgoorlie network are calculated by dividing the number of Kalgoorlie network delivery points by the number of all delivery points. This proportion is multiplied by the total indirect costs not able to be directly attributed to arrive at the indirect costs attributed to services that relate to the Kalgoorlie network, and thus excluded from the regulatory accounts.

Delivery points are used to allocate the indirect costs of services relating to the Kalgoorlie network because the number of delivery points is considered to be a good proxy for the costs that drive indirect costs. Indirect costs relate to the governance and management of customers and the network. Delivery points provide a good representation of customers and directly influence the network maintenance and investment required.

8.1.3 Entities not providing pipeline services

Operating expenditure incurred by entities not providing pipeline services within the AGALP Group is removed from the total pipeline services operating expenditure, as these costs do not relate to the covered pipeline. These costs are separately identifiable in the AGALP accounting records.

8.2 Non-reference service account adjustments

Direct costs relating to non-reference services that are directly attributable to the provision of non-reference services are allocated to non-reference service operating expenditure.

Direct costs allocated are costs relating to non-reference services paid for by retailers or other parties and include;

- costs to repair damages caused by third parties recovered from them;
- alterations to mains and services costs recovered from retailers or third parties; and
- demolition costs recovered from retailers or third parties.

Where costs are not able to be directly attributed to services, an amount of cost is allocated to non-reference services based on the estimated proportion of indirect costs relating to non-reference services. That same proportion is reflected in quotations made for non-reference services. Therefore the costs allocated to non-reference services should also approximate indirect costs recovered via non-reference services.

9. Appendices

9.1 Appendix A – Listing of referenced *NGR*[16] in the CAM

9.1.1 Rule 76 of the *NGR*:

76 Total revenue

Total revenue is to be determined for each regulatory year of the *access arrangement period* using the building block approach in which the building blocks are:

(a) a return on the projected capital base for the year (See Divisions 4 and 5); and

(b) depreciation on the projected capital base for the year (See Division 6); and

(c) the estimated cost of corporate income tax for the year (See Division 5A); and

(d) increments or decrements for the year resulting from the operation of an incentive mechanism to encourage gains in efficiency (See Division 9); and

(e) a forecast of operating expenditure for the year (See Division 7).

9.1.2 Rule 79 of the *NGR*:

79 New capital expenditure criteria

(1) Conforming capital expenditure is capital expenditure that conforms with the following criteria:

(a) the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services;

(b) the capital expenditure must be justifiable on a ground stated in subrule (2).

(2) Capital expenditure is justifiable if:

(a) the overall economic value of the expenditure is positive; or

(b) the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or

(c) the capital expenditure is necessary:

(i) to maintain and improve the safety of services; or

(ii) to maintain the integrity of services; or

(iii) to comply with a regulatory obligation or requirement; or

(iv) to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity); or

(d) the capital expenditure is an aggregate amount divisible into 2 parts, one referable to incremental services and the other referable to a purpose referred to in paragraph (c), and the former is justifiable under paragraph (b) and the latter under paragraph (c).

(3) In deciding whether the overall economic value of capital expenditure is positive, consideration is to be given only to economic value directly accruing to the service provider, gas producers, users and end users.

(4) In determining the present value of expected incremental revenue:

16 Source: National Gas Rules Version 22, 2 October 2015

(a) a tariff will be assumed for incremental services based on (or extrapolated from) prevailing reference tariffs or an estimate of the reference tariffs that would have been set for comparable services if those services had been reference services; and

(b) incremental revenue will be taken to be the gross revenue to be derived from the incremental services less incremental operating expenditure for the incremental services; and

(c) a discount rate is to be used equal to the rate of return implicit in the reference tariff.

(5) If capital expenditure made during an *access arrangement period* conforms, in part, with the criteria laid down in this rule, the capital expenditure is, to that extent, to be regarded as conforming capital expenditure.

(6) The AER's discretion under this rule is limited.

Note:

See rule 40(2).

9.1.3 Rule 82 of the *NGR*:

82 Capital contributions by users to new capital expenditure

(1) A user may make a capital contribution towards a service provider's capital expenditure.

(2) Capital expenditure to which a user has contributed may, with the AER's approval, be rolled into the capital base for a pipeline but, subject to subrule (3), not to the extent of any such capital contribution.

(3) The AER may approve the rolling of capital expenditure (including a capital contribution made by a user, or part of such a capital contribution) into the capital base for a pipeline on condition that the access arrangement contain a mechanism to prevent the service provider from benefiting, through increased revenue, from the user's contribution to the capital base.

9.1.4 Rule 91 of the *NGR*:

91 Criteria governing operating expenditure

(1) Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.

(2) The AER's discretion under this rule is limited.

Note:

See rule 40(2).

9.1.5 Rule 93 of the *NGR*:

93 Allocation of total revenue and costs

(1) Total revenue is to be allocated between reference and other services in the ratio in which costs are allocated between reference and other services.

(2) Costs are to be allocated between reference and other services as follows:

(a) costs directly attributable to reference services are to be allocated to those services; and

(b) costs directly attributable to pipeline services that are not reference services are to be allocated to those services; and

(c) other costs are to be allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the AER.

(3) The AER may, however, permit the allocation of the costs of rebateable services, in whole or part, to reference services if:

(a) the AER is satisfied that the service provider will apply an appropriate portion of the revenue generated from the sale of rebateable services to provide price rebates (or refunds) to the users of reference services; and

(b) any other conditions determined by the AER are satisfied.

(4) A pipeline service is a **rebateable service** if:

(a) the service is not a reference service; and

(b) substantial uncertainty exists concerning the extent of the demand for the service or of the revenue to be generated from the service; and

(c) the market for the service is substantially different from the market for any reference service.

9.2 Appendix B – Listing of referenced *NGL* (WA)[17] in the CAM

9.2.1 Section 55 of the *NGL* (WA):

55. Further provision about manner in which information must be provided to AER or kept

Without limiting section 53(1)(b), a regulatory information instrument may specify the information specified in the instrument—

(a) be provided to the AER, or prepared, maintained or kept, on an annual basis or some other basis, including on the occurrence of a specified event or state of affairs;

(b) be provided to the AER, or prepared, maintained or kept, in accordance with specified Rules;

(c) be provided to the AER, or prepared, maintained or kept, in accordance with any document, code, standard, rule, specification or method formulated, issued, prescribed or published by the AER or any person, authority or body whether—

(i) wholly or partially or as amended by the instrument; or

(ii) as formulated, issued, prescribed or published at the time the instrument is served or published or at any time before the instrument is served or published; or

(iii) as amended from time to time;

Example—

The AER may require a scheme pipeline service provider to provide information in a form and manner that complies with relevant accounting standards.

(d) be verified by way of statutory declaration by an officer of the scheme pipeline service provider, or of a related provider, to whom the instrument applies;

(e) be audited—

(i) by a class of person specified in the instrument before it is provided to the AER; and

(ii) at the expense of the scheme pipeline service provider or related provider to whom the instrument applies.

17 Source: *National Gas Access (WA) Act 2009*, 15 March 2015.

9.3 Appendix C – Tax effects of capital contributions

Asset category	Tax Life (Years)	Proportion of capital contribution relating to tax
High Pressure Mains - Steel	20	11.57%
High Pressure Mains - PE	20	11.57%
Medium Pressure Mains	20	11.57%
Medium / Low Pressure Mains	20	11.57%
Low Pressure Mains	20	11.57%
Regulators	20	11.57%
Secondary Gate Stations	20	11.57%
Buildings	40	17.26%
Meter and Services Pipes	15	9.50%
Equipment & Vehicles	10	7.06%
Vehicle	10	7.06%
Information Technology	4	3.54%
FRC		0.00%
Land	n/a	42.86%