ATTACHMENT 01.006A
REGULATORY COST ALLOCATION METHOD

ATCO PLAN 2025-29

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COST ALLOCATION METHOD

GAS DIVISION

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Contents

1. BACKGROUND

ATCO Gas Australia (ATCO) 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 (***MWSWGDS***);
- the Albany Gas Distribution System; and
- the Kalgoorlie Gas Distribution System.

These combined networks cover over 14,600 km of pipeline, connecting more than 790,000 end users to natural gas and LPG.

The MWSWGDS is a covered pipeline[1] and the Albany and Kalgoorlie Gas Distribution Systems are uncovered pipelines.

Of ATCO's three gas distribution networks, only the MWSWGDS is subject to a full Access Arrangement as defined under the *National Gas Law* as it applies in WA ***(NGL(WA))***[2]. An Access Arrangement (**AA**) review is required for the MWSWGDS approximately every five years. The review is conducted by the Economic Regulation Authority (**ERA**).

The AA review determines the tariffs for the reference services ATCO provides by means of the MWSWGDS. Therefore, ATCO must isolate the costs that relate to pipeline services provided by means of the MWSWGDS and present them in a format that can be scrutinised by the ERA and independently reviewed. The ERA has also issued a regulatory information notice outside of the AA review process, requesting information including capital and operating expenditure as well as financial information extracted from the regulatory accounts.

To meet these requirements, ATCO's Finance business unit has implemented a process to prepare annual regulatory accounts, which are provided to the ERA each year following finalisation of ATCO's statutory accounts[3]. The regulatory accounts ATCO submits 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 method ATCO has used to compile the regulatory accounts. The CAM also outlines the process required under rules 76, 79, 91 and 93[4] of the *National Gas Rules* (***NGR***) to allocate costs between the reference and non-reference services ATCO provides in relation to the MWSWGDS. Both reference and non-reference services are pipeline services but only reference services are specified in and subject to the AA.

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

2 *National Gas Access (WA) Act 2009* (WA)

3 The regulatory accounts are a component of the statutory accounts, therefore whilst 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.

4 Refer to Appendix A for rules 76, 79, 91 and 93 of the *NGR* (Version 63, 22 September 2022).

1.2 Scope

The CAM explains ATCO's method of classifying expenditure, as expenditure related to:

- pipeline services (including ancillary services) provided by means of the MWSWGDS, which are either:
    - reference pipeline services provided by means of the MWSWGDS; or
    - non-reference pipeline services provided by means of the MWSWGDS; or

  (referred to in this document as "reference services" and "non-reference services")
- non-pipeline services provided by ATCO.

The CAM also explains how ATCO has reclassified certain expenditure and revenue items, such as:

- certain IT expenditure has been reclassified from accounting operating expenditure to capital expenditure to be consistent with the AA5 final decision;
- reclassified capital contributions accounted for on a deferred revenue basis to a cash basis;
- accounting revenue has been reclassified as capital contributions according to regulatory definitions; and
- capital expenditure recovered via user specific charges has been excluded from capital expenditure.

The CAM assumes that the statutory accounting information is complete and correct, and does not deal with how that information is prepared.

2. REGULATORY FRAMEWORK

Section 141(a)[5] of the NGL(WA) provides 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[6] of the NGR, any expenditure related to: (a) uncovered pipeline networks (Albany and Kalgoorlie), (b) non-pipeline service provider entities and (c) non-pipeline services (collectively referred to in this document as "unregulated services") 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:

- Rules 79(6), 91(2), and 93(2)[7] of the NGR provide for costs to be allocated between reference and other services.

[5] Refer to Appendix B for section 141(a) of the *NGL*(WA), 10 October 2020.
[6] Refer to Appendix A for rule 76 of the *NGR* (Version 63, 22 September 2022).
[7] Refer to Appendix A for rules 79, 91 and 93 of the *NGR* (Version 63, 22 September 2022).

- Under rule 91(1)[8] 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[9] of the NGR.
- Under rule 82(2)[10] of the NGR, capital contributions must, subject to rule 82(3), be netted off against regulated capital expenditure.

Under section 55(e)[11] of the NGL(WA), the ERA has the power to require an audit of regulatory information, including accounting information set out in regulatory accounts.

8 Refer to Appendix A for rule 91 of the *NGR* (Version 63, 22 September 2022).

9 Refer to Appendix A for rule 79 of the *NGR* (Version 63, 22 September 2022).

10 Refer to Appendix A for rule 82(2) of the *NGR* (Version 63, 22 September 2022).

11 Refer to Appendix B for section 55(e) of the *NGL*(WA), 10 October, 2020.

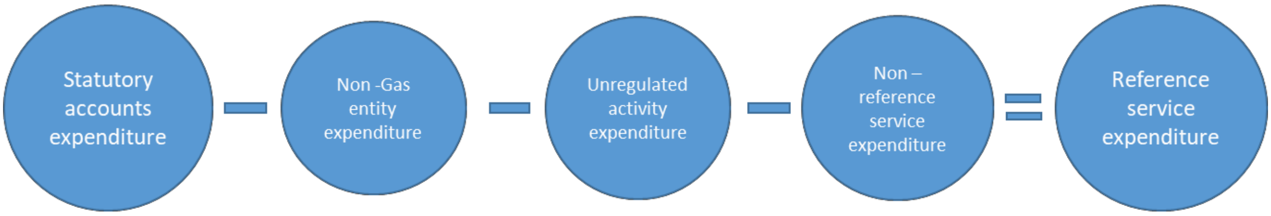
3. NETWORK SERVICES AND EXPENDITURE

The regulatory accounts show revenue and costs in respect of pipeline services ATCO provides by means of the covered MWSWGDS. The ERA uses the regulatory accounts as part of its AA review to determine trends in reference service expenditure. The regulatory accounts also show how revenue and costs have been allocated between reference and non-reference services (as required by *NGR* 93(2)) to allow the ERA to compare amounts used to calculate reference service tariffs in its AA review.

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

Capitalised terms in this section 3 are as defined in section 13 of the AA5 Access Arrangement.

Figure 1: Calculation of reference services expenditure



3.1 Basis of statutory reporting

The statutory accounts that form the basis of the regulatory accounts are the ATCO Gas Australia Networks Pty Ltd (**AGAN**) Annual Financial Report.

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 AA review, and ATCO's costs of providing these services are recovered via regulated tariffs.

3.2.1 Pipeline haulage services

ATCO offers five pipeline haulage services as reference services which are described below[12]. The total costs relating to the provision of these services will be included in the regulatory accounts.

The five haulage reference services are described below.

- **A1** – Major industrial customers using >35 TJ of gas per year, at high or medium pressures
- **A2** – Large customers using between 10 and 35 TJ of gas per year at high or medium pressures

12 The services are described in more detail at section 4 of the Access Arrangement for the Mid-West and South-West Gas Distribution Systems approved by the Era on 15 November 2019

- **B1** – Medium sized customers using <10 TJ of gas per year at medium or low pressures.
- **B2** – Small-use customers with a standard meter with capacity from $12m^3$/hour to less than 18m3/h, typically commercial or large residential
- **B3** – Small-use customers with a standard meter capacity less than $12m^3$/hour, typically residential or small business customers

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 offers six ancillary reference services. Ancillary reference tariffs reflect the actual cost to ATCO of providing each service calculated at the time of the AA5 submission adjusted for inflation. Total costs relating to the provision of these services will be included in the regulatory accounts. The six reference ancillary services are described 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 deregistered permanently removing the Delivery Point in accordance with the Retail Market Procedures 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 service B2 or B3.
- **Special Meter Reading** - where an out-of-cycle meter reading of a manually read meter additional to meter readings mandated under the Retail Market Procedures is requested by a User at the relevant Delivery Point.

3.3 Non-reference services

ATCO 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 include:

- **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, ATCO (as 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.

Other non-reference services are provided on a quotation basis as prices vary by task. This could involve changing gas distribution facilities as requested.

A complete listing of ATCO's pipeline services and non-pipeline services is available on the website: https://www.atco.com/content/dam/web/atco-australia/for-business/documents/aa5-pipeline-services-log.pdf

3.4 Uncovered pipeline services

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

3.5 Other unregulated services

ATCO provides other services which are non-pipeline services on an ad hoc basis to third parties who are not Users of a pipeline. Examples include moving sections of pipeline in response to various infrastructure works being undertaken by or on behalf of other infrastructure owners or operators affecting the safety and operation of a pipeline.

4. RESPONSIBILITIES FOR IMPLEMENTATION AND COMPLIANCE

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

4.1 Corporate and Legal business unit (ATCO Australia)

- Review the CAM to ensure the allocation methods used comply with the NGL(WA) and NGR.

4.2 Regulatory business unit

- Liaise with Finance to ensure accounting systems meet regulatory requirements.
- Prepare, maintain and review the CAM to ensure the allocation methods appropriately reflect those used in the production of regulatory accounts.
- Manage liaison with the ERA.

4.3 Finance business unit

- 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 and location;
  - capital expenditure costs incurred which are recovered;
  - IT, Fleet and Property, Plant and Equipment capital expenditure; and
  - operating costs by cost centre and unaccounted for gas (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.
- Maintain and provide non-reference services revenue data by general ledger account.
- Calculate overhead cost allocation to capital expenditure and non-reference and unregulated services.
- Prepare the statutory accounts, which are audited by external auditors.

4.4 Commercial Operations 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 reference, non-reference and unregulated 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 (labour), account codes, projects and/or work orders.
- Attribute indirect costs to pipeline services in accordance with the CAM using the correct coding on timesheets (labour), account codes, projects and/or work orders.

4.7 Responsibility for Approval of the CAM

The following authorised personnel approve the CAM:

Name	Title
Tim Harris	Financial Controller
Hugh Smith	General Manager Regulation and AA6 Lead

Name	Title
John Ivulich	Chief Financial Officer, ATCO Australia

4.8 External reviewers

ATCO engages independent external auditors to review the regulatory accounts.

4.9 ERA

The ERA will be the primary audience receiving the regulatory accounts. The ERA has the power to require an audit of the regulatory accounts under section 55(e)[13] of the NGL(WA).

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 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 1048 *Interpretation 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[14].

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 non-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 ERA[15].
- Only capital expenditure that meets the requirements of rule 79[16] of the *NGR* is included in regulatory capital expenditure.

13 Refer to Appendix B for section 55(e) of the *NGL*(WA), 10 October, 2020.

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

15 References in the NGL and NGR to the AER are to be read as a reference to the ERA (*National Gas Access (WA) Act 2009* (WA)– Schedule 1 – clause 4)

16 Refer to Appendix A for the defined rule 79 of the *NGR*.

- Only operating expenditure that meets the requirements of rule 91(1)[17] of the *NGR* is included in regulatory operating expenditure.
- ATCO 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 non-pipeline services and will be excluded from the recovery of costs through pipeline service tariffs;
  - capital expenditure will be recorded on an as incurred basis;
  - 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 ATCO adjusts 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

To calculate pipeline services capital expenditure ATCO deducts the following amounts from the statutory capital expenditure*:*

- Network capital expenditure related to uncovered pipelines (Albany and Kalgoorlie networks);
- Capital expenditure not related to pipeline services;
- Capital contributions received (variable volume & capital projects);
- Property, plant and equipment (including fleet) capital expenditure related to unregulated networks; and
- Information technology project capital expenditure related to unregulated networks.

An amount is added to statutory capital expenditure to calculate pipeline services capital expenditure for certain information technology project operating expenditure.

17 Refer to Appendix A for the defined rule 91 of the *NGR*.

ATCO records its capital expenditure in several categories:

- Projects – expenditure relates to activities for a project which is of a larger scope and requires individual budgeting and design.
- Variable volume – typically repetitive activities of a capital nature that can be costed at a standard rate.
- Property, plant and equipment including vehicle fleet – tools and equipment including vehicles that are required by ATCO staff to complete their tasks.
- IT project expenditure – expenditure on ATCO IT systems including upgrades to new versions, enhancements and new systems.

How the adjustments outlined above affect each category of expenditure is outlined in the following sections. Adjustments necessary due to the differences in statutory accounting versus regulatory treatment of expenditure are also explained.

Non-pipeline service provider entities within the AGALP group of entities which are included in the statutory financial statements did not incur any capital expenditure. Therefore, no adjustment is required for non-pipeline service provider entities' capital expenditure.

6.1.1 Project capital expenditure

Network project capital expenditure for the Albany and Kalgoorlie networks is separately identifiable and must be removed from the total regulatory capital expenditure as they are uncovered pipelines.

On an ad hoc basis ATCO provides other services which are non-pipeline services to third parties who are not users of a pipeline. Project expenditure not related to pipeline services is separately identifiable and must be removed from the total regulatory capital expenditure as it does not relate to the provision of pipeline services.

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.

Variable volume capital expenditure for the Albany and Kalgoorlie networks is separately identifiable and must be excluded from the total regulatory capital expenditure as they are uncovered pipelines.

6.1.3 Property, plant and equipment (including fleet) capital expenditure

Capital expenditure relating to the Albany and Kalgoorlie networks is identifiable by cost centre and must be excluded from pipeline services capital expenditure as they are uncovered. Similarly, capital expenditure related to services which are non-pipeline services is identifiable by cost centre and must be 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 not relating to pipeline services must be excluded from regulated capital expenditure. Each IT project is evaluated for the best basis on which to allocate costs to uncovered pipelines. Bases include number of devices, employee numbers, km of mains laid, revenue and MIRN's (delivery points).

These adjustments are made after the inclusion of the capital expenditure referred to in section 6.1.5.

6.1.5 Accounting policy adjustment – Implementation costs cloud based IT systems

International accounting standard (IAS) 38 requires that some costs relating to implementation of cloud based IT systems be treated as operating expenditure rather than capital expenditure despite the enduring nature of the benefits provided by the expenditure. This is a recently published interpretation of IAS 38[18] not available at the time of the AA5 final decision (which encompassed the years 2019 to 2024). In the AA5 final decision IT system implementation costs were forecast as capital expenditure. Whether those costs were actually incurred in relation to a cloud based or on premise based system would depend on the evaluation of alternatives at the time of implementation.

Where cloud based IT system implementation costs have been included in statutory accounts as operating expenditure they must be reclassified as capital expenditure for regulatory accounting purposes[19]. This adjustment is necessary due to the capital nature of cloud based IT system implementation costs (based on the enduring benefits of those incurred costs) and for consistency with their treatment in the AA5 final decision.

For the avoidance of doubt this expenditure does not include the ongoing costs of operating cloud based IT systems such as annual fees paid to software vendors.

6.1.6 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 an as incurred basis. Regulatory capital expenditure is recognised on an as incurred basis to reflect ATCO's investment which is required to be funded.

6.1.7 Capital contributions

The value of capital contributions on a cash received basis is excluded from covered pipeline capital expenditure. Rule 82(2)[20] of the NGR provides that only the net capital expenditure (total capital expenditure less the value of the capital contribution) may be included in the covered pipeline asset base.

18 IFRS Interpretations Committee, Update March 2021, Addendum, Configuration of Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets), Agenda paper 2, Published April 2021

19 Refer to section 6.1.4

20 Refer to Appendix A for rule 82 of the *NGR*. (Version 63, 22 September 2022)

The AA 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 rules 79(6) and 93(2)[21] 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 does not relate to the provision of non-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

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

6.2.3 Plant and equipment (including fleet) capital expenditure

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

Plant and equipment capital expenditure is excluded on two bases. Firstly, cost centres that provide non-reference services have a proportion of their capital expenditure excluded based on the proportion of labour costs that relate to non-reference services relative to total labour costs for those cost centres. This allocation is made on the basis that labour costs are a driver of costs for the cost centre.

Secondly, overhead cost centres, such as Finance, 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

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 proportion of non-reference non-IT capex, variable volume operating expenditure, and revenue.

These adjustments are made after the inclusion of the capital expenditure referred to in section 6.1.5.

21 Refer to Appendix A for rule 93 of the *NGR* (Version 63, 22 September 2022).

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(b)(iv), 1.2(b)(iii) and 1.3(b)(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 relating to unregulated services are deducted from the statutory operating expenditure to calculate pipeline services operating expenditure consistent with NGR 91(2)[22].

8.1.1 Uncovered networks (Albany and Kalgoorlie GDS)

Where direct costs for the uncovered networks (Albany and Kalgoorlie) are separately identifiable, those costs are removed from the total regulatory operating expenditure as they are uncovered pipelines.

For each network, the proportion of indirect costs not able to be directly attributed to services that relate to the network are calculated by dividing the number of 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 in cost centres providing services to the network to arrive at the indirect costs attributable to services that relate to the network, and thus excluded from the regulatory accounts.

Delivery points are used to allocate the indirect costs of services relating to the 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 services and the network. Delivery points provide a good representation of the factors that directly influence the network maintenance and investment required and consequently indirect costs related to each of the Albany and Kalgoorlie networks.

[22] Refer to Appendix A for rule 91(2) of the *NGR*. (Version 63, 22 September 2022)

8.1.2 Non-pipeline services

ATCO may on an ad hoc basis provide services to parties who are not users (as that term is defined in the NGL) of the covered pipeline or the non-covered pipelines. These costs must be excluded from pipeline services costs. These services are typically of a project nature. They may also include some training services. Direct costs relating to these non-pipeline services that are directly attributable to the provision of non-pipeline services are allocated to non-pipeline service operating expenditure.

Where costs are not able to be directly attributed to pipeline services, an amount of cost is allocated to non-pipeline services based on the proportion of labour costs that relate to non-pipeline services relative to total labour costs for each individual cost centre that provides non-pipeline services. This allocation is made on the basis labour costs are a driver of costs for the cost centre.

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 relevant pipeline. These costs are separately identifiable in the AGALP accounting records.

8.1.4 Accounting policy adjustment – Implementation costs cloud based IT systems

As explained at section 6.1.5, a recently published interpretation of IAS 38 not available at the time of the last AA final decision requires that some IT project expenditure be classified as operating expenditure although for regulatory purposes it is classified as capital expenditure.

Where this IT project expenditure has been included in statutory accounts as operating expenditure it has been reclassified as capital expenditure for regulatory accounting purposes.

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 to pipeline assets caused by third parties recovered from them;
- alterations to mains and services costs recovered from retailers; 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 included in quoted amounts relating to non-reference services. Therefore, the costs allocated to non-reference services should approximate indirect costs recovered via non-reference services.

9. REFERENCES

Supporting Documents	• AGA-FIN-PR18 Regulatory OPEX Procedure • AGA-FIN-PR19 Regulatory CAPEX Procedure • AGA-FIN-PR20 Regulatory Capital Contributions and Non Haulage Revenue Procedure
Legislation and Standards	• National Gas Access Act (WA) 2009 • National Gas Rules

10. DOCUMENT APPROVAL

Title		Name	Signature	Date
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

11. DOCUMENT HISTORY

Rev	Date	Amended By	Reason for Change
1	25/03/2014	Diana Hong	New Document Created
2	09/05/2014	Diana Hong	Incorporate 1st round of changes from the Executive Team
3	03/06/2014	Diana Hong	Incorporate 2nd round of changes from the Regulatory Team
4	13/06/2014	Allan Hudson	Incorporate Sally McMahon's changes
5	01/08/2014	Diana Hong/Sara O'Connor	Incorporate 2nd round of changes from the Executive Team
6	23/12/2014	Allan Hudson	Revise document to apply for 2014
7	23/01/2015	Allan Hudson	Revise document to include a section on the treatment of disposals
8	08/01/2016	Allan Hudson	Revise document for 2015 procedures
9	07/02/2017	Allan Hudson	Revise document for 2016 procedure change
10	07/02/2018	Allan Hudson	Revise document for 2017 procedure change
11	07/02/2019	Allan Hudson	Revise document for 2018 procedure change
12	31/12/2019	Allan Hudson	Revise document for 2019 year end
13	4/02/2021	Allan Hudson	Revise document for 2020 year end
14	31/12/2021	Allan Hudson	Revise document for 2021 year end
15	31/12/2022	Allan Hudson	Revise document for 2022 year end

APPENDIX A. LISTING OF REFERENCED *NGR*[23] IN THE CAM

A.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).

A.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; and*
   - b) *the capital expenditure must be justifiable on a ground stated in subrule (2); and*
   - c) *the capital expenditure must be for expenditure that is properly allocated in accordance with the requirements of subrule (6).*

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*

23 Source: National Gas Rules Version 63, 22 September 2022

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:*

   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. *Conforming capital expenditure that is included in an access arrangement revision proposal must be for expenditure that is allocated between:*

   a) *reference services;*

   b) *other services provided by means of the covered pipeline; and*

   c) *other services provided by means of uncovered parts (if any) of the pipeline, in accordance with rule 93*

A.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.*

A.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 forecast of required operating expenditure of a pipeline service provider that is included in the full access arrangement must be for expenditure that is allocated between:

(a) reference services;

(b) other services provided by means of the covered pipeline; and

(c) other services provided by means of uncovered parts (if any) of the pipeline, in accordance with rule 93

A.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 reduce the reference tariff in accordance with rule 97; 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.

APPENDIX B. LISTING OF REFERENCED *NGL* (WA)[24] IN THE CAM

B.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.

B.2 Section 141 of the *NGL* (WA):

141. Accounts that must be prepared, maintained and kept

On and after the compliance date, a covered pipeline service provider must prepare, maintain and kept—

(a) separate accounts in respect of pipeline services provided by means of every covered pipeline owned, operated or controlled by the covered pipeline service provider; ands;

(b) a consolidated set of accounts in respect of the whole business of the covered pipeline service provider.

24 Source: *National Gas Access (WA) Act 2009*, 10 October, 2020.

APPENDIX C. TAX EFFECTS OF CAPITAL CONTRIBUTIONS

Asset category	Tax Life (Years)	Proportion of capital contribution relating to tax
High Pressure Mains - Steel	20	6.24%
High Pressure Mains - PE	20	6.24%
Medium Pressure Mains	20	6.24%
Medium / Low Pressure Mains	20	6.24%
Low Pressure Mains	20	6.24%
Regulators	20	6.24%
Secondary Gate Stations	20	6.24%
Buildings	40	9.61%
Meter and Services Pipes	15	5.07%
Equipment & Vehicles	10	3.73%
Vehicle	10	3.73%
Information Technology	4	1.85%
Equipment (Structures)	3	1.50%
Land	n/a	30.00%