



AGN Limited (including AGN Victoria, AGN Albury and AGN South Australia)

Cost Allocation Methodology

Regulatory Information Notice (and Part 10 Financial Reporting)

December 2024

Enquiries concerning the currency of this Cost Allocation Methodology should be addressed to:

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AMENDMENT RECORD

Version	Date	Author	Description of Changes
1.0	31 March 2021	Mark McAra	Final for AGN Victoria and Albury RINs
2.0	30 November 2024	Lisa Minervini	Review, update and consolidate previous separate versions of this policy for AGN Victoria and Albury and AGN SA

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1. Corporate Profile

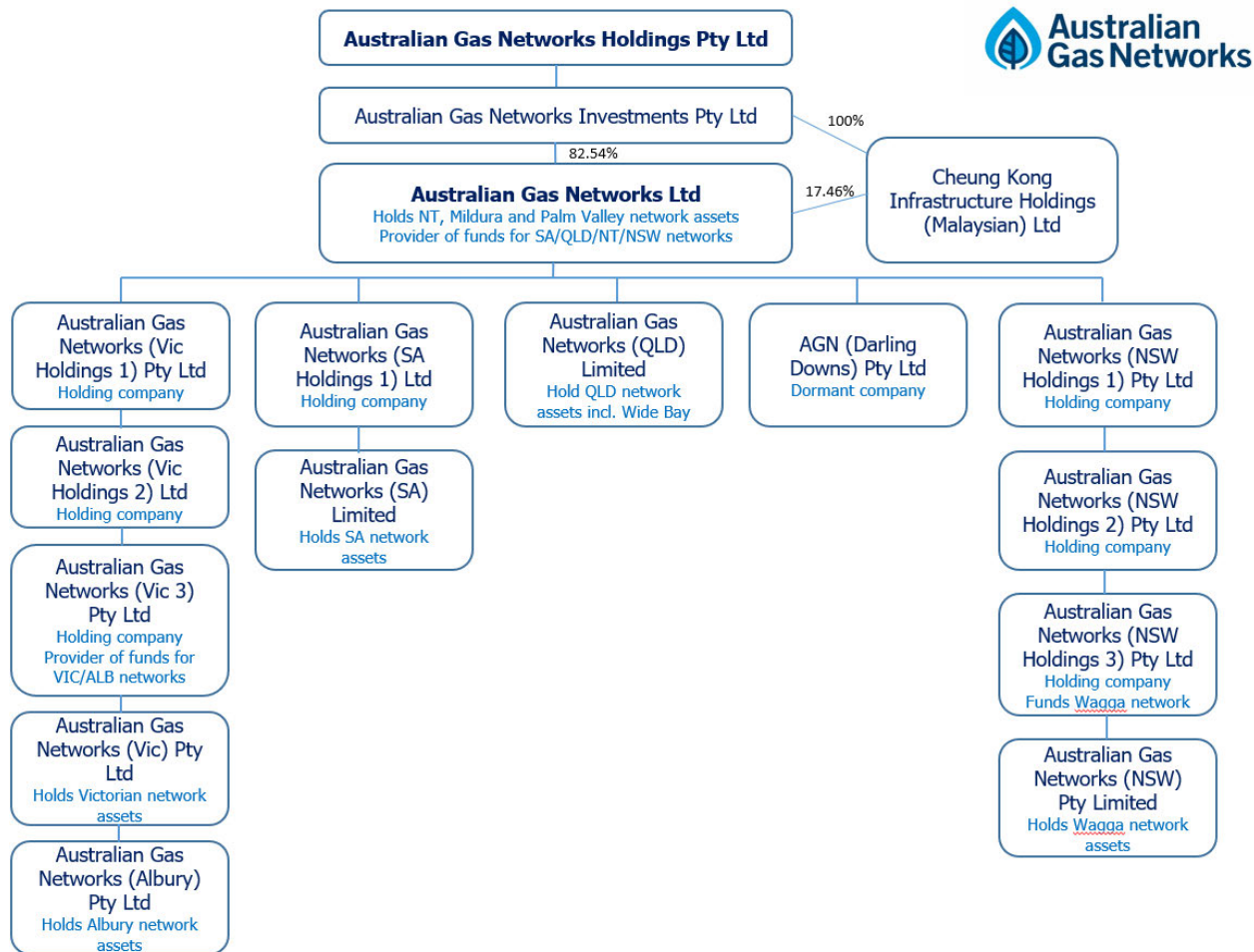
Australian Gas Networks (AGN) is part of the Australian Gas Infrastructure Group (AGIG), one of the largest gas infrastructure businesses in Australia. In 2017 AGN, Multinet Gas Networks (MGN) and Dampier to Bunbury (DBP) came together to create AGIG.

AGIG serves over two million customers across every mainland state and the Northern Territory. Our assets include around 35,000km of distribution networks, over 4,300km of transmission pipelines and 60 petajoules of storage capacity.

Since 2007, the operation and maintenance of our networks has been contracted to APA Asset Management (APA). Together with APA's efforts and commitment, we continue to deliver a safe and reliable supply of natural gas to customers connected to our networks.

A diagrammatic representation of AGN's ownership structure can be found below.

Figure 1.1 Australian Gas Networks Holdings Group Corporate Structure



2. Nature, Scope and Purpose

The purpose of this document is to set out the Cost Allocation Methodology (CAM) adopted in Australian Gas Networks Limited's (AGN) regulatory reporting. This is pursuant to the Regulatory Information Notice (RIN) issued by the Australian Energy Regulator (AER) under Division 4 of Part 1 of Chapter 2 of The National Gas (Victoria) Law, National Gas (New South Wales) Law and the National (South Australia) Law to AGN on 2 March 2020. It was amended in the final variation notice, dated 22 September 2020, and again on the 14 April 2023 to accommodate the transitional 6 month period for AGN Victoria and AGN Albury and the change in regulatory year from calendar to financial. It requires that AGN must submit, amongst other things, a CAM in respect of the pipeline services it provides by way of a covered pipelines in Victoria, Albury and South Australia.

This CAM relates to and accompanies the performance data provided within the Regulatory Templates for AGN Victoria and Albury and South Australia.

The scope of this document covers the cost attribution and allocation for functions undertaken by AGN and the network operations and management and capital works functions undertaken by AGN's principle contractor, APA.

Costs of services performed by these functions are both direct and indirect in nature and can be applied to capital, operating and maintenance type activities.

These procedures apply to both reference services and non-reference reference services provided by AGN.

The CAM is established in line with AGN's Regulatory Accounting Principles and Policies and Capitalisation Policy documents provided as part of the response to this Annual RIN.

3. Definitions

Terms	Definition
AA	Access Arrangement
AER	Australian Energy Regulator
AGN	Australian Gas Networks Limited
AGN Vic	Australian Gas Networks (Vic Holdings 1) Pty Ltd and its subsidiaries
AGN Albury	Australian Gas Networks (Albury) Pty Ltd
APA	APA Asset Management
ARS	Ancillary Reference Services
BOP	Basis of Preparation
Capex	Expenditure incurred on capitalised assets
CEO	Chief Executive Officer
CFO	Chief Financial Officer
EMT	Executive Management Team
Gas Distribution Business	A natural gas distribution network that takes gas from transmission pipelines and reticulates it into residential homes, offices, hospitals and businesses
MO&MR	Monthly Operating and Management Report
OMA	Operations and Management Agreement with APA
Opex	Operational expenditure attributing to the statement of income position for the period (i.e. profit and loss)
RFAs	Ring Fenced Accounts
RIN or Notice	Regulatory Information Notice. This is the formal requirement to prepare an annual regulatory return using the RIN template.
RIN template	Regulatory Information Notice templates. These templates provide both financial and non-financial information of the regulated business and are submitted to the Australian Energy Regulator.
SAP S/4HANA	AGN's Enterprise Resource Planning (ERP) - finance system

4. Responsibility for the Cost Allocation Methodology

Overall responsibility for the CAM is with the Chief Financial Officer and Head of Regulation of AGN, who will:

- conduct periodic reviews of the CAM, that includes, but not limited to, changes to organisational structure, operating model, cost allocation policy, significant accounting policies and regulatory guidelines where applicable;
- liaise with other General Managers, Business Unit Managers, Finance Managers and their personnel where issues are raised; and
- act as a reference point for all queries regarding the CAM.

In response to organisational change, process improvements, regulatory, legal and accounting standard changes, this CAM will be refined to ensure it continually meets the underlying principles and that cost drivers and allocators used are relevant.

Revisions to this CAM must be approved by the Chief Financial Officer and Head of Regulation.

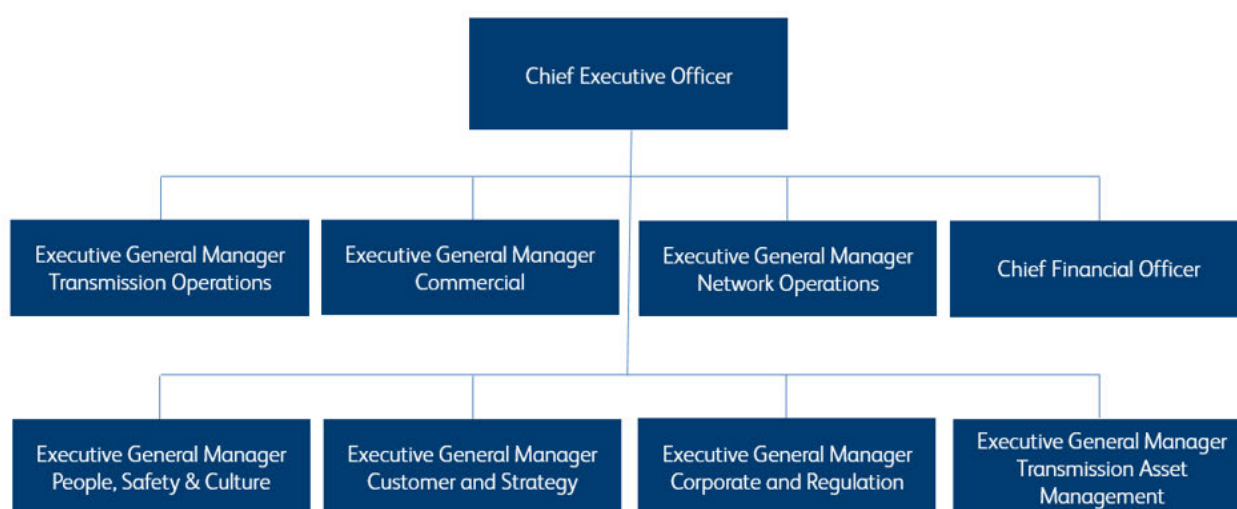
5. Organisational Structure

5.1. Australian Gas Infrastructure Group (AGIG)

The Chief Executive Officer and executive team provides strategic leadership and oversight of AGIG's business operations nationally.

The executive team is organised into functional areas aligned with key business strategies. A diagrammatic representation of the AGIG group organisational structure, with functional responsibility is contained in Figure 5.1 below.

Figure 5.1: AGIG - Organisational Structure as at November 2024



The functions shown above provide corporate management and administration services, including IT and marketing services to the scheme and non-scheme networks in each of the states in which the AGIG group operates including AGN's separate scheme pipelines in South Australia, Victoria and New South Wales.

5.2. Operational Management

APA was appointed on 2 July 2007 to operate and manage AGN's networks in accordance with legal and prudential standards, and to provide the services and functions described below and any other services agreed between the parties.

APA's obligations to AGN include:

- Managing the haulage of gas through each network
- Operating and maintaining each network
- Planning, designing and constructing network extensions
- Assisting AGN with submissions to the national regulator
- Assisting AGN in promoting the use of natural gas
- Preparing and settling with AGN the operator budget for each financial year

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- Providing AGN with regular information on financial and other management issues
- Reading meters and billing retailers

APA charge AGN for these services on a direct cost pass-through basis and the agreed Network Management Fee.

6. Costing Principles and Policies

6.1. Australian Gas Networks' Costing Overview

AGN collects and allocates costs in accordance with its internal accounting policies and procedures and in a manner consistent with this CAM.

AGN's cost collection and reporting is undertaken in its finance system SAP S/4HANA (formerly SAP Business One) and with data sourced from its principle operating and management contractor APA. This data provided by APA is sourced from its business management systems, including its Workday (formerly Oracle) General Ledger, which is integrated with a separate Asset Management System (Maximo).

APA systems overview

APA maintains a number of business applications used to record and report expenditure on projects and activities that it has been contracted to perform on behalf of AGN.

These applications are configured to separately record and report expenditure for work undertaken on each of AGN's pipelines (scheme and non-scheme) and to a level of detail that facilitates AGN's reporting obligations to the AER. This includes enabling AGN to report opex and capex in the categories and sub-categories required for the RIN (e.g. capex by activity or purpose).

This is done by AGN and APA through the use of data mapping processes that transforms expenditure information from its source format as reported from APA's systems into the categories and sub-categories shown in the RIN templates. Appropriate checking and reconciliation processes are in place to ensure that expenditure is correctly mapped and that all expenditure is accounted for and reported. These reconciliations are provided to our independent auditors as part of the assurance process.

APA incurs costs in carrying out work for AGN which can be directly attributed and also has costs that are required to be allocated which is done through the use of causal allocators.

Data transfer from APA to AGN

Each month, APA provides AGN with a data extract from its Workday general ledger. AGN uses this data extract, which is provided in a Microsoft Excel workbook, to map expenditure between the APA reporting line items, to the relevant AGN internal company ledgers, general Ledger account codes, cost centres and works breakdown structure (WBS), for the purpose of monthly management and annual reporting. Journal entries prepared and posted each month by AGN are reconciled back to the monthly opex and capex charges received from APA.

AGN reporting

AGN utilises its finance system SAP S/4HANA along with a reporting tool (AfO) to capture, control and report its costs by company ledger, general ledger account codes, cost centre or WBS. Each cost centre is also assigned a department (i.e. Reg=Regulated, Light Reg=Light Regulation, Unreg= Unregulated or NS=Non-Specific) and a Region (SA, QLD, VIC, NSW, ALBURY, NT and NS (Non-specific). AGN's general ledger enables identification of in-house labour and out-sourced expenditure through reference to applicable general ledger account codes.

6.1.1. Operations and Management Expenditure

With the operations and management of AGN's networks contracted to APA, the majority of AGN's operating and capital expenditure is initially recorded in APA's integrated business management system, Workday.

APA incurs direct expenditure in performing its functions, comprising labour, contractors, materials, services and other costs. APA also allocates and charges a proportion of its business support and overhead costs to AGN along with the agreed Network Management Fee.

APA regularly reports on its activities to AGN in the form of a Monthly Operating and Management Report (MO&MR), which includes details of operating and capital expenditure incurred on AGN's assets, along with other operational performance metrics.

For the purpose of management reporting, APA uses its Workday finance system to allocate expenditure to relevant business zones operated by AGN and to applicable expenditure categories or activities that are aligned with AGN's financial budgets.

In addition, APA prepare and provide to AGN a set of Ring Fenced Accounts (RFAs) each half year (i.e. in June and December) that reports on both operating and capital expenditure allocated between AGN's scheme and non-scheme pipelines. AGN reconciles the RFAs back to the information provided by APA in the MO&MR.

To prepare the RFAs, APA extracts data from Workday into an Excel model to reallocate the management reporting data into the required regulatory reporting view. This data model uses a set of predetermined business rules and allocators to redistribute national and state-based costs to the appropriate scheme and non-scheme pipelines. The cost allocators used to produce the RFA are listed in Tables 6.1 and 6.2 below.

AGN maps expenditure reported by APA in the RFAs at a business zone and expense category or activity level to the relevant categories and sub-categories within the AER's RIN templates. Where appropriate AGN also make adjustments to APA's cost allocations, in accordance with the Regulatory Accounting Principles and Policies provided with AGN's response to the RIN.

6.1.2. Functions Undertaken Internally by AGN

AGN's internal costs relate to corporate management and administration functions including ICT and marketing. All of these costs are captured within AGN's finance system, SAP S/4HANA.

Internal costs that are identifiable as relating to specific operating or capital expenditure activities and or network are directly allocated for the purpose of reporting to the AER (refer section 6.2.1.2) where this is described in more detail). This includes any IT or property related capital expenditure where the relevant pipeline(s) or business areas that will benefit from the capital expenditure is identifiable.

All other internal costs for AGN's functions that provide support across both scheme and non-scheme pipelines are treated as indirect costs and allocated using an appropriate driver, as described further in section 6.2.2.2 below.

If there are ad-hoc costs (both operating or capital in nature) incurred by AGN (as part of AGIG) that may be shared costs related to other entities within the AGIG group, these are allocated to each AGIG business based on the proportion of effort each business contributes and the benefits each business will receive from the initiative. Any ongoing costs associated with such initiatives are then allocated to each network every year on the basis of customer numbers (i.e. allocator

“Total Customers (excl. Small Pipelines)” in the respective networks. This ensures no cross-subsidisation, with the cost to each business reflecting the volume of customers that it serves.

Refer table 7 in Appendix A for further information on AGN’s allocation of AGIG IT Capex projects.

In preparing financial statements each year or for a relevant reporting period, including regulatory financial information for the AER, it is common practice for expenditure to be accrued up to the reporting date where costs are known to have been incurred but invoices not yet received from a vendor. Further, it is also practice for provisions to be made for future expenditure resulting from past events, in accordance with applicable accounting standards. The principles applied in allocating these costs is consistent with the allocation of other AGN costs incurred as explained in this policy

6.2. Cost Allocation by Cost Type

There are two methods in which costs are allocated to operating and capital expenditure by AGN and its principal operating and maintenance contractor, APA.

- 1 Directly attributable costs; and
- 2 Indirect costs

Most of AGN's expenditure is directly attributable to its scheme and non-scheme pipelines, and to the categories or activities in which expenditure is reported to the AER within the RIN templates.

Costs that cannot be directly attributed (i.e. corporate and business support costs, marketing and administration expenses) are allocated using an appropriate cost driver.

AGN does not have any indirectly allocated costs that have not been allocated on a causal basis.

6.2.1. Directly Attributable Costs

6.2.1.1. APA Directly Attributable Costs

The cost of functions and activities that AGN has contracted to APA and which is directly attributable for the purpose of RIN reporting to the AER, are listed below.

Capital Works

- All direct contractors, materials, services and other costs incurred to deliver capital projects (with the exception of IT capital projects)

Operations

- Customer Service/Billing
- Gas Control/Telemetry
- Leaks
- One Call Centre
- National Pipelines (non-scheme pipelines)
- Network Maintenance
- Regional Operations (for SA and some non-scheme pipelines)
- Operation Management (also includes some costs that are indirectly allocated)

- Operation Administration (also includes some costs that are indirectly allocated)

Technical Services

- National Asset Planning
- Technical Assurance (SA only)

Other

- Property Costs
- Network Management Fee
- Government Charges
- Unaccounted for Gas

The underlying type of costs within these functions and activities that are directly attributable comprise labour, contractors, materials, services and other costs.

Cost Type	Cost Driver
Labour	<p>Labour directly associated with the operations and maintenance of the network is driven by hours worked which is captured in timesheets within APA's asset management system (Maximo). The home cost centre of employees predominately identifies the activity associated with the expenditure, with salary and wages costs allocated directly to that home cost centre when paid. Hours spent by employees working on other activities (i.e. not in their home cost centre) are recorded against the other relevant cost centres, enabling costs to be transferred out of the home cost centre. Labour costs recognised represent employee salaries and wages, including overtime and on-costs.</p> <p>Labour associated with support functions that predominately relates to a single service area, is recognised as a cost in each employee's home cost centre upon payment of their salaries or wages, including overtime and on-costs.</p> <p>Labour associated with operational support functions that provide services to multiple activities, is captured in the Workday timesheet system which facilitates the allocation of labour costs from the employee's home cost centre, to the relevant cost centres associated with the activities being supported. The initial costs of those employees' salaries and wages are recognised upon payment as an expense in their home cost centre. Costs that are transferred to other cost centres are based on an hourly rate, calculated to recover the equivalent hourly cost of that employee, including overtime and on-costs.</p>
Contractors	<p>Contractors are sourced to supplement APA's own workforce and particularly for capital projects. Contractors are predominately procured through the issuing of work orders in APA's asset management system (Maximo). Work orders are assigned with project codes, which enables costs to be captured at the general ledger in Workday.</p>
Materials, services and other costs	<p>Materials, services and other costs associated with operations and maintenance and capital works projects are procured through the issuing of work orders in Maximo.</p> <p>Materials, services and other costs associated with support and overhead functions are procured through the issuing of purchase orders in APA's Workday procurement module. Purchase orders are assigned to project within the Workday General Ledger.</p>

6.2.1.2. AGN Internal Directly Attributable Costs

Activities within AGN's internal expenditure that can be directly attributed, are identified by a company ledger code, cost centre (including unique department and region fields) attached to the general ledger account. This links the cost to a particular scheme or non-scheme pipeline:

- Jurisdictional costs and license fees pertaining to a particular pipeline
- Audit fees including technical, volume and RIN audits that relate directly to a pipeline
- Legal and Consultant Fees that directly relate to a pipeline
- Bad debts
- Remediation costs
- Marketing (Rebates)

In addition to the above, management reviews the financial information prepared for the RINs, both in total and where appropriate, at the general ledger account and transaction level, to identify any costs that do not relate to the regulated businesses. Any such costs are directly attributed to the unregulated activities of the business.

6.2.2. Indirectly Allocated Costs

There are certain functional activities within AGN or that are contracted to APA that are not wholly attributable to specific pipelines or categories of expenditure and therefore need to be allocated. These include corporate and general management, network planning, IT, HSE, network engineering and other business support and administration functions that are provided nationally or that are state based but which support multiple regions within a state.

6.2.2.1. APA Indirectly Allocated Costs

The activities undertaken by APA for which costs are indirectly allocated, are outlined in Table 6.1 (AGN (SA)) and Table 6.2 (AGN Victoria and AGN Albury) below, including those that are either a state based or national function. These are primarily operating activities but includes a proportion of which is capitalised (e.g. capitalised overheads outlined in section 6.2.3.1). For completeness, the table also lists items of expenditure that are directly allocated.

The basis of cost attribution applied by APA in preparing the RFAs, including how costs are allocated to business zones within states is shown in Table 6.1 and Table 6.2 below. Cost allocators have been selected on the basis of being the appropriate driver which is the most significant trigger of consumption or utilisation of resources or services in relation to a given category of expenditure.

Business zones are either deemed scheme or non-scheme. Additionally, APA identify some business zones as being 'small zones' for the purpose of excluding those zones from certain cost allocations where they are considered immaterial (i.e. costs are not materially influenced by the existence of that small zone).

AGN (SA)

Table 6.1: APA Ring Fenced Accounts - Cost Attribution AGN SA

Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
OPERATIONS				
Cathodic protection		X		<ul style="list-style-type: none"> Kilometres of Distribution Network
Customer Service	X		X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers South Australia costs directly allocated
Gas Control/Telemetry	X			<ul style="list-style-type: none"> South Australia costs directly allocated

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Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
Leaks	X			<ul style="list-style-type: none"> South Australia costs directly allocated
Operations Administration	X	X	X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers South Australia 'Compliance and Support' cost centre allocated on Customer Numbers South Australia 'SA Market Transactions' cost centre and Planning and Scheduling directly allocated
Operations Management	X	X	X	<ul style="list-style-type: none"> South Australia Ops Management cost centres and Network Workforce Transformation cost centre allocated on Customer Numbers and Adelaide Integrity 3rd Party cost centre allocated on Km's of Distribution Networks South Australia other cost centres directly allocated
Regional Operations	X			<ul style="list-style-type: none"> South Australia costs directly allocated
National Pipelines	X			<ul style="list-style-type: none"> South Australia costs directly allocated
Network Maintenance	X			<ul style="list-style-type: none"> South Australia costs directly allocated
TECHNICAL SERVICES				
Network Planning	X		X	<ul style="list-style-type: none"> AIS National costs allocated on Customer Numbers South Australia costs directly allocated for Adelaide Integrity Engineering and National Asset Strategy cost centres
TSG management - incl. Regulation		X		<ul style="list-style-type: none"> Kilometres of Distribution Network
Technical Assurance	X			<ul style="list-style-type: none"> South Australia costs directly allocated
Network Engineering		X		<ul style="list-style-type: none"> Kilometres of Distribution Network

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Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
CORPORATE				
Business Solutions Group		X	X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers South Australia costs allocated on Customer Numbers (Application Projects allocated excluding small zones)
Finance and Accounting			X	<ul style="list-style-type: none"> National costs allocated on Total Consumption
General Management			X	<ul style="list-style-type: none"> National costs allocated on Total Consumption (National Business Improvement Dept. allocated excluding small zones)
Commercial & Regulatory			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers (excluding small zones)
SHARED SERVICES				
Information Technology			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers
HSE			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers
OTHER				
Property Costs	X	X		<ul style="list-style-type: none"> South Australia cost centre Adelaide Property and Facilities allocated on Customer Numbers South Australia cost centre Kidman Park directly allocated
Capitalised Overheads		X		<ul style="list-style-type: none"> South Australia costs allocated on Customer Numbers
Network Management Fee	X			<ul style="list-style-type: none"> South Australia costs directly allocated
Incentive Fees		X		<ul style="list-style-type: none"> South Australia costs allocated on Customer Numbers
Fair Asset Rental		X		<ul style="list-style-type: none"> n/a to South Australia

Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
MARKETING				
Marketing	X			<ul style="list-style-type: none"> South Australia costs directly allocated
OTHER				
Government Charges	X			<ul style="list-style-type: none"> South Australia costs directly allocated
UAFG	X			<ul style="list-style-type: none"> South Australia costs directly allocated

AGN Victoria and AGN Albury

Table 6.2: APA Ring Fenced Accounts - Cost Attribution AGN Victoria and AGN Albury

Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
OPERATIONS				
Cathodic protection		X		<ul style="list-style-type: none"> Kilometres of Distribution Network
Customer Service	X		X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers Victoria and Albury costs directly allocated
Gas Control/Telemetry	X			<ul style="list-style-type: none"> Victoria costs directly allocated Not applicable to Albury
Leaks	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated
One Call Centre	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated
Operations Management	X	X		<ul style="list-style-type: none"> Thomastown and Mornington 'Ops Management' cost centres allocated on Customer Numbers Thomastown Integrity 3rd Party Cost Centre allocated on Kilometres of Distribution Network

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Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
				<ul style="list-style-type: none"> Victoria and Albury other cost centres directly allocated
Operations Administration	X	X	X	<ul style="list-style-type: none"> Vic/NSW Market transactions cost centre national costs allocated on Customer Numbers National Planning and Scheduling Cost centre national costs allocated on Kilometres of Distribution Network Victoria and Albury State costs for Business Support and Admin cost centres allocated on Customer Numbers (excluding small zones) All other Victoria and Albury costs directly allocated
Regional Operations		X		<ul style="list-style-type: none"> 'Victoria cost centre costs allocated on Thomastown Reallocation Factor Albury cost centres costs allocated on Albury Reallocation Factor
Network Maintenance	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated
TECHNICAL SERVICES				
Network Planning	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated
TSG management - incl. Regulation			X	<ul style="list-style-type: none"> Kilometres of Distribution Network
Technical Assurance		X		<ul style="list-style-type: none"> Victoria and Albury costs allocated on Customer Numbers
Network Engineering		X		<ul style="list-style-type: none"> Victoria and Albury costs for cost centre 'Thomastown Eng Technical Auth' allocated on Customer Numbers Remaining cost centres allocated on kilometres of Distribution Network

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Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
CORPORATE				
Business Solutions Group		X		<ul style="list-style-type: none"> Victoria and Albury 'Thomastown Applications-Projects' cost centre allocated on Customer Numbers (excluding small zones) Victoria and Albury 'Thomastown IT Application Strategy, Application Support, IT Management and Service Delivery' cost centres allocated on Customer Numbers
Finance and Accounting			X	<ul style="list-style-type: none"> National costs allocated Total Consumption
General Management			X	<ul style="list-style-type: none"> National costs allocated Total Consumption
SHARED SERVICES				
Information Technology			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers
HSE			X	<ul style="list-style-type: none"> National costs allocated on Customer Numbers
OTHER				
Property Costs	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated
Capitalised Overheads		X		<ul style="list-style-type: none"> Victoria and Albury costs allocated on Customer Numbers
Network Management Fee	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated
Incentive Fees		X		<ul style="list-style-type: none"> Victoria and Albury costs allocated on Customer Numbers
Fair Asset Rental		X		<ul style="list-style-type: none"> Kilometres of Distribution Network
MARKETING				
Marketing		X		<ul style="list-style-type: none"> Victoria and Albury costs allocated on Customer Numbers

Reporting Activity	Directly Allocated	State Cost (Cost is re-allocated within the State)	National Cost (Cost is re-allocated Nationally)	Basis of allocation
OTHER				
Government Charges	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated
UAFG	X			<ul style="list-style-type: none"> Victoria and Albury costs directly allocated

In addition to the above indirectly allocated operating costs, APA allocate National IT Capex across AGN's scheme and non-scheme pipelines. This is reported by APA in the RFA's that are produced each half year (i.e. in June and December). AGN reconciles the RFA capex information back to the information provided by APA in the MO&MR and the relevant Fixed Assets Registers. The allocator that is used is "Total Customers (excl. Small Pipelines)".

6.2.2.2. AGN Internal Indirectly Allocated Costs

The internal expenses incurred by AGN that are not directly attributed, are allocated by applying an appropriate cost driver, as outlined below. Cost categories may be directly allocated, indirectly allocated or a combination of both.

There are two drivers primarily used as the basis of indirectly allocating AGN's internal expenses.

- 1 Existing customer numbers; and
- 2 Regulatory Asset Base as percentage of the total asset base for AGN.

When used, these cost allocators have been selected as being an appropriate driver due to being the most significant trigger of consumption or utilisation of resources for given expenditure categories.

AGN allocates its internal expenses to each of the scheme and non-scheme pipelines it owns in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

Below Table 6.3 lists the categories within AGN's expenses and the method or driver with which they are allocated. For completeness, the table also lists items of expenditure that are directly allocated as listed in Section 6.2.1.2 above.

Expenditure allocated in accordance with this methodology is accounted for as operating expenditure in AGN's regulatory reporting to the AER and encompasses all of AGN's internal functions, as represented in the organisational structure in Figure 5.1.

Table 6.3: Australian Gas Networks Limited - Corporate Management and Administration Expenses - Cost Attribution

Expenditure categories	Directly Allocated	Indirectly Allocated	Basis of allocation
Changes in Provisions	X	X	<ul style="list-style-type: none"> Direct Existing customer numbers

Expenditure categories	Directly Allocated	Indirectly Allocated	Basis of allocation
Corporate Costs (e.g. ASIC costs, sponsorships etc.)		X	<ul style="list-style-type: none"> Existing customer numbers
Insurance		X	<ul style="list-style-type: none"> Existing customer numbers
Debt Raising Costs (costs incurred in relation to raising debt instruments for investment in AGN's networks)		X	<ul style="list-style-type: none"> Regulatory Asset Base as percentage of the total asset base for AGN
Government License Fees/Jurisdictional charges	X		<ul style="list-style-type: none"> Direct
Marketing (costs relating to marketing the use of natural gas and rebates to customers)	X	X	<ul style="list-style-type: none"> Direct Existing customer numbers
Other (e.g. office expenses, travel, entertainment, IT, professional subs, bad debts, rent, conferences etc.)	X	X	<ul style="list-style-type: none"> Existing customer numbers; and Direct
Payroll Costs (salaries, directors fees and related labour costs)	X	X	<ul style="list-style-type: none"> Existing customer numbers; and Direct
Professional Costs (General legal, consulting and audit costs)	X	X	<ul style="list-style-type: none"> Existing customer numbers; and Direct

For the purpose of reporting an Income Statement which is derived from the Audited Statutory Accounts, as required for table F1. Income in the RIN template, AGN allocates the consolidated group Net Finance Expenses to each scheme and non-scheme business using an allocator which is the relevant asset value (of each scheme and non-scheme business) as a percentage of the total asset base of AGN Limited. This is considered by AGN Limited to be the most appropriate allocator and method for determining the amount of Net Finance Expenses for each business.

In addition to the above AGN internal indirectly allocated operating expenditure, AGN allocate national AGN Limited ICT projects and infrastructure renewals to the separate businesses within AGN Limited based on the allocator "Total Customers (excl. Small Pipelines).

This is consistent with the treatment of capex for national AGIG ICT projects and APA managed IT capex projects that has been allocated to AGN Limited.

6.2.3. Capitalisation of Business Overheads

AGN Limited capitalises a proportion of business overhead costs of its principle network management contractor, APA Asset Management (APA), which can be directly attributed to capital activities. These overhead costs include a share of the Network Management Fee (NMF) which represents APA's margin under the OMA.

This policy is in accordance with AGN Limited's interpretation of relevant accounting standards (i.e. AASB 116 *Property, Plant and Equipment*) and the Accounting Standard Board's *Framework*.

AGN's Regulatory Accounting Principles and Policies document also contains guidance on the capitalisation of overheads as does the separate Capitalisation Policy provided in AGN's response to the Annual RIN.

From 2022, a proportion of the AGN Limited internal labour costs associated with specific internal employees/positions that are working on capital growth projects and or capital major projects, is being capitalised as an indirect overhead.

Labour associated with specific IT capex projects (including AGIG IT projects) is directly allocated to capex and not reported as an overhead.

All other internal costs of AGN Limited that cannot be specifically linked to a capital project and do not enhance or improve the future economic benefits of an asset are to be treated as operating expenditure.

6.2.3.1. APA Business Overheads Capitalisation

The share of APA's overhead costs that are allocated to capital expenditure, are initially collected into an 'overhead cost pool' based on a proportion of APA's selected department costs. There are effectively two overhead cost pools, with state and national overheads captured and allocated separately.

State based cost centres that are included in the state overhead pool are as follows:

- Operations management;
- Regional operations;
- Operations administration;
- Business Support (Vic); and
- HSE;

National based cost centres that are included in the national overhead pool are as follows:

- Engineering Ops Support & Commissioning
- Engineering Technical Authority
- Engineering Design Projects and Major Projects
- Engineering Design I&C Projects
- Integrity
- Networks Learning Solutions
- Risk & Compliance
- Tech & Regulatory Compliance
- Business Systems Delivery
- Business Intelligence
- EAM Business Support
- National Planning and Scheduling
- Asset Information Systems
- Finance and Accounts Receivable

As stated above, APA's overhead costs that are capitalised for statutory accounting purposes also include a percentage of the NMF paid by AGN.

These overhead cost pools are allocated to relevant activities of capital expenditure based on a percentage uplift rate set each year, by dividing the total capitalised overhead cost pool into the budgeted capital expenditure for each of the states in which AGN operates. This initial allocation is based on the budgeted expenditure for the year. At mid-year and year-end a 'true-up' process is undertaken to reconcile budgeted costs to actual costs, with year-end allocations representing actual costs.

Major IT projects are excluded from this method as a direct allocation of time spent is used to transfer time and associated costs from activities (or departments) thereby reducing the overhead cost pool.

[APA Business Overheads Capitalisation – AGN SA](#)

As per the Regulatory Accounting Principles and Policies document and the Capitalisation policy AGN SA treats the capitalisation of APA's Business overheads consistent with the statutory treatment except for the Network Management Fee (NMF) paid to APA.

For regulatory reporting purposes all NMF for AGN SA is treated as Opex (included in Repairs and Maintenance), consistent with the Access Arrangement Information (amended by order of the Australian Competition Tribunal) issued by the AER on 10 February 2012.

[APA Business Overheads Capitalisation – AGN Victoria and Albury](#)

As per the Regulatory Accounting Principles and Policies document and the Capitalisation policy AGN Victoria and Albury has changed its treatment of the capitalisation of some of APA's Business overheads.

In the Final Decision for the AGN (Victoria & Albury) Access Arrangement 2023/24 - 2027/28 a portion of capitalised overheads were approved as an opex step change and hence included in operating expenditure (see *Final Decision Australian Gas Networks (Victoria & Albury) Gas Distribution Access Arrangement 1 July 2023 to 30 June 2028, Attachment 6 – Operating section 6.5.1 page 10*). AGN identified certain activities that are more akin to operating expenditure than capital expenditure and these include:

- the costs of operations administration, operations management and regional operations involved in the management of capital projects;
- 100% of the network management fee (previously 50% of the NMF was expensed); and
- indirect costs to support the provision of the above activities such as property costs, human resources, shared services and HSE.

For regulatory accounting purposes, this expenditure will be reported as Opex and included in Repairs and Maintenance.

6.2.3.2. AGN Business Overheads Capitalisation

As mentioned above, AGN Limited has identified specific internal employees/positions that are working on the following activities for whom a proportion of their salary (including on-costs) is being capitalised:

- Business Development growth projects; and
- Delivery of major asset projects i.e. mains replacement programs, augmentation projects.

As per AASB 116 *Property, plant and equipment*, the recognition principle states that an asset shall be recognised if:

1. It is probable that future economic benefits associated with the item will flow to the entity and
2. The cost of the item can be measured reliably.

Guidance provided in the standard under “elements of cost” states that cost includes:

- a) Purchase price after deducting discounts and rebates
- b) Costs directly attributable to bringing the asset to the location and condition necessary for its intended use
- c) Estimate of costs of dismantling, removing and restoring sites.

Paragraph 16(b) further states that ‘any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management’ can be capitalised.

Examples of directly attributable costs are set out in paragraph 17 and include:

- (a) costs of employee benefits (as defined in AASB 119 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;
- (b) costs of site preparation;
- (c) initial delivery and handling costs;
- (d) installation and assembly costs;
- (e) costs of testing whether the asset is functioning properly; and
- (f) professional fees.

Further, paragraph 22 outlines that ‘The cost of a self-constructed asset is determined using the same principles as for an acquired asset.’

On a monthly basis, specific AGN staff complete timesheets within the CATS time writing module of SAP4/HANA to allocate a percentage of their time to a project for “Overhead Salaries”, effectively “pooling” these costs. At month end, the project is settled to Property Plant and Equipment and then as part of the year end process, these projects costs are added to the Fixed Asset Register against the relevant asset or group of assets on a prorate basis.

For regulatory reporting purposes, these overheads (business support costs) that are incurred as part of day-to-day operating activities are categorised as operating in nature and reported against the relevant category of expenditure in RINs, as required by the format of the RIN templates (e.g. in tables F4. Opex – Other opex).

This is consistent with what was approved in the current Access Arrangements for both AGN SA and AGN Victoria and AGN Albury.

7. Record Maintenance

As described in section 5, AGN derives costs through its finance system and with data sourced from its principal operating and management sub-contractor APA.

Audited statutory accounts are prepared for the consolidated group structure shown in Figure 1.1 on a calendar year basis and form the foundation for the overall costs that are included in the Annual RIN financial reporting to the AER.

Full documentation is maintained in preparation of the regulatory reporting to the AER. Supporting cost reports are generated and working files prepared, including cost allocations containing bases as well as numeric and percentage values consistent with this CAM.

Financial data reported in the RIN templates is in accordance with, and reconciled to, the statutory financial accounts.

All reports and files are made available to external auditors for the purpose of expressing an opinion that the financial information contained in the regulatory templates is presented fairly in accordance with this CAM. As part of this process, AGN's Chief Financial Officer and General Manager Corporate and Regulation sign a Management Representation Letter, attesting to the auditors that the RINs have been appropriately reviewed and prepared in accordance with these documents.

Upon finalisation of the audit and/or review process, relevant General Managers sign a memo confirming the accuracy of the data contained in each RIN and endorse the Chief Executive Officer to sign a Statutory Declaration attesting that the information contained in each RIN, to the best of his/her knowledge, is true and accurate in all material respects.

All the information prepared as part of the Annual RIN must be maintained for at least seven years from the date of the respective submission.

8. Compliance with Cost Allocation Methodology

The Manager Regulatory Finance and Head of Regulation in AGN is responsible for preparing financial information reported to the AER in the regulatory templates (Annual RINs and Access Arrangement RINs) in accordance with the CAM and other internal guidelines. The Chief Financial Officer is responsible for the final review of financial information reported in the Annual RINs. Compliance is endorsed by management and reviewed by independent auditors.

9. Application and Effective Date

This CAM document:

- a Applies to the preparation of regulatory financial information to be provided to the AER by AGN Limited in respect of the Annual Regulatory Information Notice for AGN Victoria, AGN Albury and AGN SA issued on 2 March 2020, as amended in the final variation notice, dated 22 September 2020 and again on the 14 April 2023 to accommodate the transitional 6 month period for AGN Victoria and AGN Albury and the change in regulatory year from calendar to financial;
- b Is applicable to all AGN Limited personnel involved in the preparation of regulatory financial reporting to the AER;
- c Incorporates all applicable regulatory accounting principles and policies for the current Access Arrangement periods i.e 2023/24 – 2027/28 for AGN Victoria and Albury and 2021/22 – 2025/26 for AGN SA; and
- d Remains effective for future regulatory reporting periods, subject to amendment.

Approved by:



Paul May

Chief Financial Officer



Peter Bucki

Head of Regulation

Date: 25/11/2024

Appendix A Cost Allocators

Set out in the tables below, are the cost allocator amounts applied by APA in the preparation of the Ring-Fenced Accounts (RFAs), for the current Access Arrangement periods i.e 2023/24 – 2027/28 for AGN Victoria and Albury and 2021/22 – 2025/26 for AGN SA in accordance with the Annual RIN for AGN Victoria, AGN Albury and AGN SA issued on 2 March 2020, as amended in the final variation notice, dated 22 September 2020 and again on the 14 April 2023 to accommodate the transitional 6 month period for AGN Victoria and AGN Albury and the change in regulatory year from calendar to financial.

Listed are the allocator amounts applied in each six-month period for which the RFAs were prepared.

Listed first in Table 1, Table 2 and Table 5 are the allocation factors used by APA in the RFAs for AGN Victoria, AGN Albury and AGN SA. Following in Table 3, Table 4 and Table 6 are the allocation factors used by AGN for internal costs allocated to AGN Victoria, AGN Albury and AGN SA. Finally, in Table 7 is the allocation factor used by AGIG for the shared ICT Capex project for SAP S/4HANA.

Table 1: **AGN Victoria** - Allocation Factors and Amounts - APA Asset Management – Current AA 2023/24 – 2027/28

Allocation Factor / Allocation Amounts	Dec 2023	Jun 2024
STATE ALLOCATORS (APA)		
Total Customer Numbers	96%	96%
Total Customers (excl. Small Pipelines)	97%	97%
Kilometres of Distribution Network	94%	94%
Thomastown Reallocation Factor	100%	100%
Total Consumption	96%	97%
Albury Reallocation Factor	74%	74%
NATIONAL ALLOCATORS (APA)		
Total Customer Numbers	52%	52%
Total Customers (excl. Small Pipelines)	53%	52%
Kilometres of Distribution Network	45%	46%
Thomastown Reallocation Factor	100%	100%
Total Consumption	68%	67%
Albury Reallocation Factor	74%	74%

Table 2: **AGN Albury** - Allocation Factors and Amounts - APA Asset Management – Current AA 2023/24 – 2027/28

Allocation Factor / Allocation Amounts	Dec 2023	Jun 2024
STATE ALLOCATORS (APA)		
Total Customer Numbers	3%	3%
Total Customers (excl. Small Pipelines)	3%	3%
Kilometres of Distribution Network	4%	4%
Thomastown Reallocation Factor	-	-
Total Consumption	3%	3%
Albury Reallocation Factor	25%	25%
NATIONAL ALLOCATORS (APA)		
Total Customer Numbers	2%	2%
Total Customers (excl. Small Pipelines)	2%	2%
Kilometres of Distribution Network	2%	2%
Thomastown Reallocation Factor	-	-
Total Consumption	2%	2%
Albury Reallocation Factor	25%	25%

Table 3: **AGN Victoria** - Allocation Factors and Amounts - AGN Limited – Current AA 2023/24 – 2027/28

Allocation Factor / Allocation Amounts	Dec 2023	Jun 2024
AGN INTERNAL COST ALLOCATORS		
Total Customer Numbers	52%	52%
*Total Customers (excl. Small Pipelines)	53%	52%
Regulatory Asset Base (Victoria AA) as percentage of total asset base	41%	42%

*Used for the allocation of AGN/AGIG IT and "Other" capital projects

Table 4: **AGN Albury** - Allocation Factors and Amounts - AGN Limited – Current AA 2023/24 – 2027/28

Allocation Factor / Allocation Amounts	Dec 2023	Jun 2024
AGN INTERNAL COST ALLOCATORS		
Total Customer Numbers	2%	2%
*Total Customers (excl. Small Pipelines)	2%	2%
Regulatory Asset Base (Albury AA) as percentage of total asset base	1%	1%

*Used for the allocation of AGN/AGIG IT and "Other" capital projects

Table 5: **AGN SA** - Allocation Factors and Amounts - APA Asset Management – Current AA 2021/22 – 2025/26

Allocation Factor / Allocation Amounts	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024
STATE ALLOCATORS (APA)						
Total Customer Numbers	98%	98%	98%	98%	98%	98%
Total Customers (excl. Small Pipelines)	100%	100%	100%	100%	100%	100%
Kilometres of Distribution Network	92%	92%	92%	92%	92%	92%
Total Consumption	97%	97%	97%	98%	97%	98%
NATIONAL ALLOCATORS (APA)						
Total Customer Numbers	34%	34%	34%	34%	34%	34%
Total Customers (excl. Small Pipelines)	35%	35%	35%	35%	35%	35%
Kilometres of Distribution Network	31%	31%	31%	31%	31%	31%
Total Consumption	19%	20%	19%	19%	20%	20%

Table 6: **AGN SA** - Allocation Factors and Amounts - AGN Limited – Current AA 2021/22 – 2025/26

Allocation Factor / Allocation Amounts	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024
AGN INTERNAL COST ALLOCATORS						
Total Customer Numbers	34%	34%	34%	34%	34%	34%
Increase in Customers*	27%	26%	27%	29%	N/A	N/A
Total Customers (excl. Small Pipelines)**	35%	35%	35%	35%	35%	35%
Regulatory Asset Base (SA AA) as percentage of total asset base	41%	41%	41%	41%	41%	40%

*Ceased being used as an allocator from 2023/24

**Used for the allocation of AGN/AGIG IT and "Other" capital projects

AGIG IT Projects allocated to the AGN (and in turn to AGN scheme and non-scheme pipelines) is primarily driven by the direct spend of the AGIG entities involved.