Jemena Vic Hub Pipeline Pty Ltd

VicHub Cost Allocation Methodology

Public

This information was last updated on 27/6/2025, is current as of that date and replaces all previous versions.

27 June 2025

Jemena

An appropriate citation for this paper is:

VicHub Cost Allocation Methodology

Authorisation

Name	Job Title	Date	Signature
Approved by:			
Nurcan Hasan	General Manager, Business Performance	27 June 2025	

History

Rev No	Date	Description of changes	Author
1.0	27 June 2025	Initial version	Anthony Walker

Owning Functional Area

Business Function Owner:	Commercial Finance Energy Markets

Review Details

Review Period:	Revision Date/Last Review Date + 2 years
Next Review Due:	27 June, 2027

TABLE OF CONTENTS

List of tables

ABBREVIATIONS

AER	Australian Energy Regulator
AEMO	Australian Energy Market Operator
CAM	Cost Allocation Methodology
CATS	Cross Application Timesheets
CFO	Chief Financial Officer
DWGM	Declared Wholesale Gas Market
EGP	Eastern Gas Pipeline
ERP	Enterprise Resource Planning
NGR	National Gas Rules
NGL	National Gas Law
VicHub	VicHub Gas Pipeline
WBS	Work Breakdown Structure

OVERVIEW

VicHub Gas Pipeline (**VicHub**) is a 2km gas pipeline acting as a strategic gateway into and out of the Declared Wholesale Gas Market (**DWGM**), linking the gas markets of New South Wales and the Australian Capital Territory to Victoria. VicHub, located at Longford Victoria, links the DWGM with the Eastern Gas Pipeline (**EGP**) and provides gas transportation for shippers who either receive gas at the Orbost Gas Plant and require access to the DWGM or seek to store gas on the EGP to take advantage of supply and pricing volatility and manage risk.

VicHub is owned by Jemena VicHub Pipeline Pty Ltd (**VicHub service provider**), who is a subsidiary of SGSPAA. See Appendix A for a chart of the SGSPAA group structure (**Jemena group**).

VicHub is a non-scheme pipeline.

This cost allocation methodology (**CAM**) has been prepared pursuant to the requirement of Rule 101D(1)(b) of the National Gas Rules (**NGR**) in respect of the financial year ending 31 December 2024 for VicHub.

1.   NATURE, SCOPE AND PURPOSE

The purpose of this CAM is to establish a method of attributing or allocating costs to services provided by VicHub. The cost allocation principles, policies and approach are to be consistent with:

- The cost allocation principles set out in Rule 103(4) of the NGR which require that costs directly attributable to a pipeline be allocated to the pipeline; and costs which are not directly attributable to the pipeline but are incurred in providing services by means of the pipeline must be allocated to the pipeline using an appropriate allocator.

- the ring-fencing provisions set out in Chapter 4 Part 2 of the NGL. In particular, Jemena maintains a number of internal controls to ensure that the costs of related businesses undertaken by associates are not allocated to service providers. Additionally, section 141 of the NGL requires a service provider to prepare and maintain separate accounts in respect of pipeline services provided by means of every pipeline owned by the service provider, as well as a consolidated set of accounts in respect of the whole of the business of the service provider.

2.   PIPELINE SERVICES

VicHub service provider provides pipeline services by means of VicHub, as explained below:

1. **Firm forward haul transportation service:** transportation service where the transportation of gas is guaranteed along a specified route and timeframe at an agreed volume and tariff. The transportation for a firm service is secured and not subject to changes or cancellations, providing a certain level of reliability. The "forward haul" aspect specifically refers to the part of the journey where goods are moved from the origin point to the destination. This service is commonly used on VicHub to ensure timely and predictable delivery of gas.

2. **Backhaul service:** the transportation of gas in the opposite direction of the primary or forward haul. A backhaul service involves moving gas from a secondary delivery point back toward the source or a different destination. On VicHub a backhaul service allows for efficient use of pipeline infrastructure by enabling gas to be contracted in both directions.

3. **Other services:**

   Day Ahead Auction (DAA): provides shippers with the opportunity to acquire contracted (firm) but unnominated transportation capacity on a day-ahead basis through a competitive bidding process facilitated by AEMO.

From time-to-time, VicHub service provider may also provide services that are not pipeline services.

3. COST ALLOCATION PRINCIPLES AND POLICIES

3.1 OVERVIEW OF APPROACH

VicHub service provider provides various pipeline services to its customers. Pipeline services are defined in the National Gas Law to mean services which are provided by means of a pipeline. Generally, the costs of building, maintaining and operating a pipeline will enable the provision of a range of different pipeline services all of which can be provided by a single pipeline asset. For this reason, it is generally not possible to directly attribute construction, maintenance and operational activities (and therefore their costs) to each pipeline service that is provided.

VicHub service provider utilises an Enterprise Resource Planning (**ERP**) corporate business system to capture, control and report its costs. Controls within the ERP system ensure that costs are reported only once.

Costs are recorded at an activity level in our ERP system and rolled up to a Work Breakdown Structure (**WBS, Project**). A WBS is a model that breaks down a project into smaller, more manageable components or tasks, organized in a hierarchical structure which tracks:

- the nature of the accounting treatment—being capital or operating expenditure

- the nature of the expenditure—e.g. maintenance, licences, shared costs etc.

VicHub service provider reports its costs in a number of categories, and assigns costs to VicHub using various methods. A summary of this approach is outlined in Table 3–1.

Costs are assigned to VicHub consistent with the requirements set out in section 2.3 of the AER's Pipeline Information Disclosure Guidelines and the cost allocation principles set out in rule 103(4) of the NGR.

Table 3–1: Summary of cost categories and assignment methodology to pipeline

Cost category	Assignment method	
	Attribution	Allocation
Labour	✓	
Subcontractor	✓	
Materials	✓	
Fleet operating costs	✓	
Other pipeline costs	✓	
Pipeline overheads		✓
Corporate overheads		✓

3.2 ATTRIBUTABLE COSTS TO PIPELINE

Rule 103(4)(c) of the NGR requires that service provider must only allocate costs to a pipeline that are directly attributable to the pipeline and if costs are not directly attributable to the pipeline, but which are incurred in providing services by means of the pipeline, such costs must be allocated to the pipeline using an appropriate allocator.

Costs that are attributed to VicHub and their basis for attribution are explained in Table 3-2.

Table 3–2: Pipeline attributable costs

Direct cost type	Basis for attribution
Labour	Labour costs are assigned using time writing (quantity) at a standard labour rate through the Cross Application Timesheets (**CATS**) module of our ERP system to a relevant WBS.
Subcontractors	External contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. Subcontractor costs are receipted against a purchase order and then assigned to the relevant pipeline WBS.
Materials	Material costs include stock items distributed through VicHub's warehousing and materials purchased directly from an external party via purchase order processing system. Material costs are assigned to the relevant pipeline WBS.
Fleet operating costs	Fleet operating costs are captured against cost centres and attributed to the relevant pipeline WBS.
Other pipeline costs	All other costs incurred directly as a result of operating the pipeline e.g. licence fees, lands management fees.

3.3   ALLOCATED COSTS TO PIPELINE

Allocated costs are costs that cannot be directly attributed to a pipeline, in most cases they are 'shared' in nature. The costs are captured in our ERP system and then allocated to a WBS project. Causal allocators are created consistent with well accepted causal methods to apportion the costs.

3.3.1   CORPORATE OVERHEAD COSTS

VicHub service provider incurs corporate overhead costs. These shared enterprise support function costs are used to support multiple business units within the Jemena Group and cannot be directly attributed to a pipeline, but are incurred in order for VicHub service provider to provide pipeline services. These costs are captured in cost collectors and then allocated on causal basis to business units including VicHub service provider.

Corporate overhead costs are allocated in the following ways:

- Step 1: Corporate overhead costs are allocated to Jemena's gas transmission and processing assets based on specific causal drivers assigned to each type of overhead cost, with a range of allocation drivers used as appropriate for each type of cost including surveys of headcount effort, surveys of digital application usage, emissions volumes, revenue and EBIT.

- Step 2: Corporate overhead costs are then allocated to various service providers, including VicHub service provider, based on a management survey of the support effort consumed by each service provider.

The allocators used to allocate shared enterprise support function costs are the most appropriate because they are the best estimates of the benefits consumed by the respective pipelines and other business units within the Jemena Group.

A summary of VicHub's shared corporate overhead costs is provided in Table 3-3.

Table 3–3: Description of corporate overhead cost items

Description
• Office of the Managing Director
• Corporate Strategy
• Finance
• Digital (Information and Technology Services)
• People, Safety and Governance
• Procurement, Property and Fleet
• Regulatory

3.3.2 PIPELINE OVERHEAD COSTS

VicHub service provider incurs pipeline overhead costs. These costs are used to support multiple pipelines within the Jemena Group and cannot be directly attributed to a pipeline, but are incurred in order for VicHub service provider to provide pipeline services. Pipeline overhead costs are allocated on causal basis based on an annual survey of work effort by the supporting functional teams.

A summary of VicHub's pipeline overhead costs is provided in Table 3-4.

Table 3–4: Description of pipeline overhead cost items

Description
• Pipeline management activities relating to the VicHub asset
• Design and service engineering, technical asset management, compliance and risk activities relating to the asset
• Pipeline marketing and other commercial activities

4.   COST ALLOCATION TO SERVICES

Although some costs of VicHub can be identified and directly attributed to the pipeline via a WBS within the ERP system, these costs cannot be further broken down and attributed to individual pipeline services provided by VicHub. Costs are not incurred specifically at a service level and therefore are not directly attributable to services. As such, the costs attributed to VicHub are allocated to the individual pipeline services provided by VicHub.

Expenses are allocated to the 'Description' categories based on the Direct Revenue allocator. This allocator is the most appropriate because there is a relationship between the economic benefits realised (direct revenue) and the economic benefits consumed (Direct expenses & Shared Expenses) as a result of operating the pipeline. VicHub service provider is not aware of a more appropriate allocation approach.

Table 4–1: Summary of cost categories and assignment methodology to pipeline services

Cost category	Assignment method	
	Attribution	**Allocation**
Labour		✓
Subcontractor		✓
Materials		✓
Fleet operating costs		✓
Other pipeline costs		✓
Pipeline overheads		✓
Corporate overheads		✓

5. ACCOUNTABILITIES AND RESPONSIBILITIES

The CAM will be used for all regulatory reporting purposes.

VicHub service provider is committed to the ongoing application of the CAM and will be the primary responsibility of Jemena's General Manager, Business Performance who will:

- conduct periodic reviews of the CAM;

- liaise with the Chief Financial Officer (**CFO**), Regulation team, Business Unit Managers, Other Finance General Managers and their staff where relevant CAM issues are raised; and

- act as the reference point for all queries regarding the CAM in relation to Regulatory matters.

6. RECORD MAINTENANCE

All relevant documentation supporting the allocation of costs (direct or shared) are maintained within Jemena's accounting and information system databases.

These records are supported by the company's comprehensive record protection and retention procedures and practices, as well as the relevant data recovery and back up processes.

Appendix A
SGSPAA Group Structure

A1. SGSPAA GROUP STRUCTURE

VicHub service provider's position within the SGSPAA group structure is highlight in orange.

Figure A1–1: SGSPAA group structure