



Economic Regulation Authority

Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline

Attachment 3: Revenue and tariffs

25 July 2024

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Note

This attachment forms part of the ERA's draft decision on proposed revisions to the access arrangement for the Goldfields Gas Pipeline. It should be read in conjunction with all other parts of the draft decision, which is comprised of the following document and attachments:

Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline – Overview, 25 July 2024

- Attachment 1: Access arrangement and services
- Attachment 2: Demand
- Attachment 3: Revenue and tariffs (this document)
- Attachment 4: Regulatory capital base
- Attachment 5: Operating expenditure
- Attachment 6: Depreciation
- Attachment 7: Return on capital, taxation, incentives
- Attachment 8: Other access arrangement provisions
- Attachment 9: Service terms and conditions

Attachment 3. Summary

GGT has proposed a significant increase to its total revenue requirement for AA5, up from \$213.1 million (nominal) in AA4 to \$388.6 million (nominal) in AA5. The ERA has reduced GGT's proposed increase in revenue, including reductions in its proposed operating and capital expenditure, and has increased the level of demand in AA5. These factors have led to more moderate tariff increases than proposed by GGT that are now largely driven by rising inflation and the increased cost of capital.

GGT proposed to retain the Firm Transportation Service as the single reference service under the access arrangement. GGT has also retained the three-part tariff structure for the service. For 2025, the proposed tariff is significantly higher than the 2024 approved tariff (in real terms, there is a 27 per cent increase in the toll charge, a 62 per cent increase in the capacity reservation charge, and a 59 per cent increase in the throughput charge).

The reference tariff variation mechanism allows the reference tariff to vary over the course of the access arrangement period. For AA5, GGT has proposed six new cost pass through events. GGT states that these additional cost pass through events are needed to mitigate the increasing operational risks it faces. The ERA has agreed to the inclusion of three of these new cost pass through events to cover natural disasters, terrorism and carbon costs.

Summary of required amendments

- 3.1 GGT must amend the values for total revenue (nominal) to reflect the values as set out in Table 3.9 of Draft Decision Attachment 3.
- 3.2 Schedule A of the proposed revised access arrangement, which details the reference service tariff, should be amended to reflect the ERA approved tariffs set out in Table 3.10 of Draft Decision Attachment 3.
- 3.3 GGT must delete the "insurance cap event" and "insurer credit risk event" from Section 4.5.2(c) of the proposed access arrangement.
- 3.4 GGT must amend the definition of "natural disaster event" to include the following provision: "iii. whether a declaration has been made by a relevant government authority that a natural disaster event has occurred".
- 3.5 GGT must amend Section 4.5.2(c) of the proposed access arrangement to include the meaning of "natural disaster event", which must be the same definition that is set out in GGT's Proposal Overview (subject to Required Amendment 3.4 above).
- 3.6 GGT must amend the meaning of "terrorism event" in Section 4.5.2(c) of the proposed access arrangement to match the definition that is set out in GGT's Proposal Overview.
- 3.7 GGT must amend the definition of "carbon cost event" in Section 4.5.2(c) of the proposed access arrangement, to:
 - a. ensure only carbon costs that are directly related to the operation of the GGP are captured as a carbon cost event; and
 - b. make explicit that a carbon cost event applies to both material increases and material decreases in costs.
- 3.8 GGT must delete the "regulatory change event" from Section 4.5.2(c) of the proposed access arrangement.
- 3.9 GGT must amend section 4.5.2(d) of the proposed access arrangement to change the materiality threshold to a minimum value of \$1 million.

Regulatory requirements

1. Section 24 of the National Gas Law (NGL) details the following revenue and pricing principles. These principles set out a framework for the construction of reference tariffs, which involves determining the total revenue amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline. Once total revenue for the pipeline is determined, reference tariffs can be determined to recover this revenue (that is, the reference tariffs are set to recover the service provider's efficient costs).

Revenue and pricing principles

- (1) The revenue and pricing principles are the principles set out in subsections (2) to (7).
- (2) A service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs in—
 - (a) providing reference services; and
 - (b) complying with a regulatory obligation or requirement or making a regulatory payment.
- (3) A service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides. The economic efficiency that should be promoted includes—
 - (a) efficient investment in, or in connection with, a pipeline with which the service provider provides reference services; and
 - (b) the efficient provision of pipeline services; and
 - (c) the efficient use of the pipeline.
- (4) Regard should be had to the capital base with respect to a pipeline adopted—
 - (a) in any previous—
 - (i) full access arrangement decision; or
 - (ii) decision of a relevant Regulator under section 2 of the Gas Code;
 - (b) in the Rules.
- (5) A reference tariff should allow for a return commensurate with the regulatory and commercial risks involved in providing the reference service to which that tariff relates.
- (6) Regard should be had to the economic costs and risks of the potential for under and over investment by a service provider in a pipeline with which the service provider provides pipeline services.
- (7) Regard should be had to the economic costs and risks of the potential for under and over utilisation of a pipeline with which a service provider provides pipeline services.¹

¹ Extracts of the NGR that are referenced in this document are provided in Appendix 2 for information. NGL, section 24.

2. Under the National Gas Rules (NGR), total revenue is to be determined for each year of the access arrangement period using the “building block” approach, with the building blocks being:
 - A return on the projected capital base for the year.
 - Depreciation on the projected capital base for the year.
 - The estimated cost of corporate income tax for the year.
 - Increments or decrements for the year that result from the operation of an incentive mechanism.
 - A forecast of operating expenditure for the year.²

3. The NGR set out specific provisions relating to the determination of each of the respective building blocks.³ In addition to these provisions, rule 93 requires total revenue to be allocated between reference services and other pipeline services in the ratio in which costs are allocated between these services.
 - Costs that are directly attributed to reference services must be allocated to those services.
 - Costs that are directly attributed to other pipeline services (that are not reference services) must be allocated to those services.
 - Other costs (that are not directly attributed to a reference or other pipeline service) must be allocated between reference and other pipeline services on a basis determined or approved by the regulator. The basis on which this occurs must be consistent with the revenue and pricing principles.
 - Costs for the provision of rebateable services may be allocated to reference services if there is a rebate mechanism to apply an appropriate portion of the revenue from the sale of rebateable services to reduce the reference tariff.⁴

4. Each reference service must have a reference tariff. There must also be a mechanism to vary the reference tariff over the course of an access arrangement period. The NGR set out the following provisions for the calculation of reference tariffs and the development of a tariff variation mechanism:
 - Provisions for revenue equalisation (rule 92)
 - The reference tariff variation mechanism must be designed to equalise (in net present value) forecast revenue from reference services for the access arrangement period and the portion of total revenue allocated to reference services for the access arrangement period.
 - Where there is an interval of delay between the revision commence date for an access arrangement and the date on which revisions to the access arrangement actually commence, reference tariffs in force at the end of the previous access arrangement period must continue without variation for the interval of delay. When fixing the reference tariff for the new access arrangement period there may be an adjustment for any under/over recovery

² NGR, rule 76.

³ The specific provisions relating to each of the building block components are discussed in the relevant attachments to the ERA’s decision.

⁴ A rebateable service is a service that is not a reference service and substantial uncertainty exists concerning the extent of the demand for the service or of the revenue to be generated from the service.

that resulted from the continuation of reference tariffs from the previous access arrangement period during the interval of delay.

- Provisions for transmission pipeline tariffs (rule 95).
 - A reference service tariff must be designed to generate the portion of total revenue referable to that reference service and, as far as reasonably practicable, generate from the user or class of users to which the reference service is provided, the portion of total revenue referable to providing the reference service to that user or class of users.
 - The portion of total revenue referable to a reference service must be determined as follows:
 - Costs directly attributable to each reference must be allocated to that service.
 - Other costs attributable to reference services must be allocated on a basis determined or approved by the regulator (and must be consistent with the revenue and pricing principles).
 - The portion of total revenue referable to providing a reference service to a user or class of users must be determined as follows:
 - Costs directly attributable to supplying the user or class of users must be allocated to the relevant user or class.
 - Other costs are to be allocated between the users or class of users and other users or classes of users on a basis determined or approved by the regulator (and must be consistent with the revenue and pricing principles).
- Provisions for prudent discounts (rule 96).
 - Despite other tariff provisions, the regulator may approve a discount for a particular user or prospective user, or a particular class of users or prospective users.
 - To approve a discount, the regulator must be satisfied that the discount is necessary to respond to competition from other pipeline service providers or other sources of energy, or to maintain efficient use of the pipeline. It must also be satisfied that the provision of a discount is likely to result in tariffs that are lower than they would have otherwise been.
 - Where a discount is approved, the regulator may also approve the allocation of the cost (or part of the cost) of providing the discount to the costs of providing a service in one or more future access arrangement periods.
- Provisions for reference tariff variation (rule 97).
 - The reference tariff variation mechanism may provide for variation of a reference tariff in a variety of forms, including one or more of the following: a schedule of fixed tariffs, a formula in the access arrangement, a cost pass through for a defined event, or the sale of rebateable services (as contemplated under rule 93).
 - In deciding whether the reference service tariff variation mechanism is appropriate, the regulator must consider the need for efficient tariff structures, the possible effects of the mechanism on administrative costs, any existing regulatory arrangements in place before operation of the mechanism, the desirability of consistency between regulatory arrangements within and beyond the relevant jurisdiction, the risk sharing arrangements in the access arrangement, and any other factor considered to be relevant.

- The reference tariff variation mechanism must give the regulator adequate oversight or powers of approval over the variation of the reference tariff.
 - Except as provided by the reference tariff variation mechanism, a reference tariff cannot vary during an access arrangement period.
5. The NGR require the following revenue and tariff information to be included in the service provider's Access Arrangement Information (AAI).⁵ AAI is information that is reasonably necessary for users (including prospective users) to understand the background to the access arrangement; and the basis and derivation of the various elements of the access arrangement.
- Information on the proposed approach to set the reference tariffs, including the suggested basis for the reference tariffs (including the method used to allocate costs and a demonstration of the relationship between costs and tariffs), and a description of any pricing principles employed (rule 72(1)(j)).
 - The service provider's rationale for any proposed reference tariff variation mechanism (rule 72(1)(k)).
 - The total revenue to be derived from pipeline services for each year of the access arrangement period (rule 72(1)(m)).
6. In addition, AAI must state the basis on which financial information is provided. Under the NGR, financial information must be provided on a nominal or real basis, or some other recognised basis for dealing with the effects of inflation (rule 73).

⁵ NGR, rule 72.

GGT proposal

Total revenue

7. GGT has calculated its total revenue requirement using the building block approach as required by the NGR. The total revenue forecast for AA5 is \$348.6 million (Table 3.1). This is an increase of \$125 million (54 per cent) in real terms compared to the approved revenue requirement for AA4. GGT submitted that the increase is mainly due to higher interest rates and operating costs.⁶

Table 3.1: GGT forecast total revenue for AA5 (\$ million, real 2023)

Building block	2025	2026	2027	2028	2029	Total
Return on asset	31.92	32.64	32.11	31.28	30.53	158.48
Depreciation	21.08	21.09	20.76	19.73	18.58	101.24
Inflationary gain	-11.11	-11.36	-11.17	-10.88	-10.62	-55.15
Operating expenditure	25.52	25.98	26.16	26.79	26.35	130.8
Tax (net)	2.82	2.46	2.58	2.69	2.70	13.24
Total revenue	70.24	70.80	70.44	69.60	67.53	348.61

Source: GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 47, Table 7-1.

Cost allocation

8. GGT submitted that its approach to cost allocation for AA5 is consistent with the approach that was used (and approved by the ERA) for AA4. The approach takes into account the regulatory status of the pipeline and involves the allocation of costs between the covered and uncovered portions of the GGP and an allocation of shared corporate costs from APA Group (the parent company).
9. GGT's allocation of operating, capital and shared corporate costs between covered and uncovered portions of the GGP is summarised in Table 3.2.

Table 3.2: GGT allocation of operating, capital and shared corporate costs between covered and uncovered portions of the Goldfields Gas Pipeline

Allocation	Summary of allocation approach (method)
Allocation of operating costs	<p>Operating costs are classified as either: APA operations costs; GGT operations costs; APA commercial operations; or shared corporate expenditure.</p> <p>The allocation method is as follows:</p> <ul style="list-style-type: none"> APA operations costs (except for engineering and field services) and commercial and GGT operations costs (except for regulatory expenditure) are allocated to the covered pipeline according to the ratio of the number of terajoules per day (TJ/d) of contracted

⁶ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 47.

Allocation	Summary of allocation approach (method)
	<p>capacity provided using the covered pipeline to the number of TJ/d of contracted capacity provided using the whole GGP (covered and uncovered pipelines) in the year in which the expenditure was incurred.</p> <ul style="list-style-type: none"> • Regulatory costs are allocated 75% to the covered pipeline. • APA operations costs within the engineering and field services categories are allocated to the covered pipeline based on the expected relative direct costs of those services.
Allocation of capital costs	<p>Where it is possible to assign capital costs to the covered or uncovered portion of the pipeline, such costs are allocated to the covered and uncovered portion accordingly.</p> <p>Where it is not possible to assign capital costs to the covered or uncovered portion of the pipeline, the allocation method is as follows:</p> <ul style="list-style-type: none"> • Compressor related capital costs: Where there are both covered and uncovered compressor units installed at a compressor station, the allocation of capital expenditure between services provided using the covered pipeline and services provided using the uncovered GGP assets is the ratio of (a) the number of covered pipeline compressor units at that compressor station to (b) the total number of compressor units at the station. • Non-compressor related capital costs: Capital costs are allocated to the covered pipeline in the following ratios: <ul style="list-style-type: none"> – For distance related assets, the ratio between (a) the number of TJ/km/day of contracted capacity provided using the covered pipeline to (b) the number of TJ/km/day of contracted capacity provided using the GGP (the covered pipeline plus the uncovered GGP assets) during the year. – For all other assets, the ratio between (a) the number of TJ/day of contracted capacity provided using the covered pipeline to (b) the number of TJ/day of contracted capacity provided using the GGP (the covered pipeline plus the uncovered GGP assets) during the year.
Allocation of shared corporate costs (operating and capital)	<p>A share of corporate operating costs has historically been allocated to the covered pipeline under the 'corporate costs' category. However, the covered portion of the GGP has never been allocated a share of APA's corporate capital costs for regulatory purposes. APA has begun apportioning these costs in the current access arrangement (2020 to 2024) and will continue to in the future.</p> <p>APA shared corporate expenses are allocated to each asset on a revenue basis (i.e. the revenue earned by GGP relative to the total revenue of all of APA's assets). APA applies this approach consistently for all assets, including other regulated assets.</p>

Source: GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, pp. 40-44.

10. The Northern Goldfields Interconnect (NGI) has increased demand forecasts for contracted capacity and throughput for AA5.⁷ GGT stated that additional capacity provided by the NGI will be treated as covered capacity under the access arrangement. As a result, GGT amended the proportion of costs allocated to the covered portion of the GGP (Table 3.3).

⁷ The NGI connects to the GGP and adds a third receipt point to the pipeline.

Table 3.3: GGT cost allocation percentages between covered and uncovered portions of the Goldfields Gas Pipeline

Ratio of contracted covered capacity to total capacity		TJ/day	%
Yarraloola Receipt Point and NGI	Covered capacity	141.5	61
	Uncovered capacity	90.7	39
	Total capacity	232.2	100
Ratio of terajoules kilometres of contracted covered capacity to terajoules kilometres total contracted capacity		TJ*km	%
Yarraloola Receipt Point and NGI	Covered capacity	117,607.3	70
	Uncovered capacity	49,622.3	30
	Total capacity	167,229.7	100

Source: GGT, Goldfields Gas Pipeline AA5 - Proposal Overview, 1 January 2024, p. 44, Table 6-1.

Reference tariff

- For AA5, GGT will provide the Firm Transportation Service as the only reference service. The reference tariff for this service is calculated from GGT's forecast total revenue requirement and demand for AA5.
- GGT's forecast reference tariff is set out in Table 3.4 (real dollars) and Table 3.5 (nominal dollars). GGT submitted that the tariff structure remains the same as the tariff structure used in the current (AA4) access arrangement. The forecast tariff increases in 2025 (from the 2024 ERA approved tariffs) is directly related to the increase in GGT's total revenue requirement for AA5.

Table 3.4: 2024 ERA approved and 2025 GGT proposed reference tariff (\$ real 2023)

Tariff component	Unit	2024 (ERA approved)	2025 (GGT proposed)	Variance (%)
Toll	\$/GJ MDQ	0.128448	0.162241	26
Capacity reservation	\$/GJ MDQ km	0.000778	0.001249	61
Throughput	\$/GJ km	0.000210	0.000332	58

Source: GGT, Goldfields Gas Pipeline AA5 - Proposal Overview, 1 January 2024, p. 61, Table 9-1.

Table 3.5: 2024 ERA approved and 2025 GGT proposed reference tariff (\$ nominal)

Tariff component	Unit	2024 (ERA approved)	2025 (GGT proposed)	Variance (%)
Toll	\$/GJ MDQ	0.131672	0.162241	23
Capacity reservation	\$/GJ MDQ km	0.000798	0.001249	57
Throughput	\$/GJ km	0.000215	0.000332	54

Source: GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 62, Table 9-2.

13. GGT submitted that its three-part tariff structure reflects “the underlying capital and operating cost structures used to provide pipeline services to individual customers at different locations along the GGP.”⁸ To calculate the tariff components, GGT allocated a percentage of its total revenue requirement (in present value terms) to each tariff component, as set out below. The percentage allocations have remained the same since the first access arrangement period (AA1).

The present value building block revenue is allocated in the following way:

- 11.3 per cent is allocated to the toll component.
- 72.2 per cent is allocated to the capacity reservation component.
- 16.5 per cent is allocated to the throughput component.⁹

Tariff variation mechanism

14. GGT’s tariff variation mechanism comprises:¹⁰
- A scheduled variation mechanism that provides for an annual variation of the reference tariff to adjust for inflation and updates to the return of debt; and allow GGT to vary the individual components of the reference tariff by up to two per cent.
 - A cost pass through variation mechanism that provides for variation of the reference tariff in response to a cost pass through event.
15. Under the access arrangement, and subject to the ERA’s approval, GGT can adjust the reference tariff if one or more cost pass through events materially change, or is reasonably expected to materially change, the cost of providing the reference service. For AA5, GGT has proposed a wider range of cost pass through events to mitigate risks. The proposed events include the two existing cost pass through events from AA4 (change in law event and tax change event) and six new cost pass through events as set out in Table 3.6.
16. GGT has not proposed any changes to the scheduled variation mechanism component of the tariff variation mechanism.

⁸ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 58.

⁹ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 58.

¹⁰ GGT, *Goldfields Gas Pipeline AA5 - Proposed Revised Access Arrangement Information*, 1 January 2024, section 12, p. 29-31.

Table 3.6: GGT proposed new cost pass through events for the reference tariff variation mechanism for AA5

Proposed new cost pass through event	Purpose of / reason for the proposed event
Insurance coverage (cap) event	An insurance coverage event mitigates the risk of liability losses that exceed GGT's insurance coverage. This event protects GGP in the event an insurer is not liable to pay all, or part, of a large or catastrophic event that could have a financially significant impact.
Insurer credit risk event	An insurance credit risk event mitigates the risk of an insurer becoming insolvent, and as a result forcing APA/GGT to insure with another provider and incurring substantial additional costs beyond our control. Additional costs may include higher premiums, a lower claim payment or higher deductible.
Natural disaster event	A natural disaster event mitigates the risk of not being able to obtain insurance coverage for natural disaster events and materially increasing GGT's efficient costs that are unable to be recovered by GGT. GGT cannot prevent this type of event from occurring and cannot substantially mitigate the cost impacts of this type of event (both prior to and after the occurrence of the event).
Terrorism event	A terrorism event mitigates the risk of liability arising from devastating and deliberate damage caused to GGT's network which risks GGT's ability to deliver prescribed transmission services to customers.
Carbon cost event	In Western Australia, two businesses have been approved to pass through costs incurred as a result of actions taken to comply with obligations to reduce greenhouse gas emissions. GGT is proposing similar provisions for the GGP access arrangement. GGT considers that a carbon cost mechanism offers flexibility in the dynamic and complex energy sector.
Regulatory change event	In recognition of the changing regulatory and policy GGT is proposing a regulatory event as a catch all for changes that do not fall within any of the other categories. This will enable GGT to recover the efficient costs of providing services for unforeseen and unanticipated events.

Source: GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, pp. 121-124.

Submissions

17. The ERA received no submissions from interested parties that addressed GGT's proposal for revenue and tariffs.

Draft decision

18. GGT has confirmed the basis of its financial information in Section 1 of the AAI. Financial information in GGT's proposal is provided in both nominal and real terms, with all real financial information expressed in constant real prices as at 31 December 2023. Table 3.7 shows the Consumer Price Index (CPI) and inflation values used by GGT. GGT stated:

Where necessary, to express financial values in dollar values of 31 December 2023, financial values prior to this date were escalated at the rate of inflation as measured by the Consumer Price Index (All Groups, Weighted Average of Eight Capital Cities) as published by the Australian Bureau of Statistics (CPI).

Financial values after 31 December 2023 are de-escalated using the forecast rate of inflation from the weighted average cost of capital (or WACC) parameter estimates.¹¹

Table 3.7: GGT actual and forecast consumer price index and inflation rates

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual			Forecast						
December CPI	117.2	121.3	130.8	136.4	140.8	144.4	148.1	151.9	155.9	159.9
Inflation (%)	0.86	3.50	7.83	4.25	3.25	2.58	2.58	2.58	2.58	2.58

Source: GGT, *Goldfields Gas Pipeline Access Arrangement Information*, 1 January 2024, Table 2, p.4.

19. The ERA has provided its financial information using the CPI and inflation values in Table 3.8, which has revised forecast inflation values from 2024 onwards. The revised forecast inflation values are consistent with the forecast values that were used to calculate the rate of return for this draft decision (see Draft Decision Attachment 7).

Table 3.8: ERA actual and forecast consumer price index and inflation rates

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual			Forecast						
December CPI	117.2	121.3	130.8	136.4	139.8	143.3	146.9	150.6	154.4	158.2
Inflation (%)	0.86	3.50	7.83	4.25	2.51	2.51	2.51	2.51	2.51	2.51

Source: ERA analysis

Total revenue

20. Table 3.9 sets out the ERA's draft decision total revenue building block components as determined elsewhere in the draft decision.

¹¹ GGT, *Goldfields Gas Pipeline Proposed Revised Access Arrangement Information*, 1 January 2024, p. 4.

Table 3.9: ERA draft decision total revenue building blocks for AA5 (\$ million nominal)

Building Blocks	2025	2026	2027	2028	2029	Total
Regulatory operating expenditure						
Operating expenditure	22.81	23.77	24.53	25.48	26.01	122.60
Return on capital base	31.33	32.99	33.46	33.65	33.60	165.03
Regulatory depreciation						
Depreciation	13.07	15.03	15.75	16.36	16.88	77.09
Inflationary gain	(10.54)	(11.10)	(11.26)	(11.33)	(11.31)	(55.54)
Regulatory corporate income tax						
Corporate income tax	5.42	5.24	5.55	6.03	6.51	28.75
Imputation credits	(2.71)	(2.62)	(2.78)	(3.01)	(3.25)	(14.37)
Total revenue (unsmoothed)	59.38	63.31	65.25	67.18	68.44	323.56

Source: ERA analysis

Required Amendment

- 3.1 GGT must amend the values for total revenue (nominal) to reflect the values as set out in Table 3.9 of Draft Decision Attachment 3.

Allocation of total revenue

21. GGT allocates costs between covered and uncovered portions of the pipeline at the cost level and prior to the calculation of total revenue. Total revenue is then allocated to the one reference service. The ERA has considered GGT's allocation of capital and operating costs in Draft Decision Attachments 4 and 5, respectively. Consistent with these considerations, the ERA has amended the cost allocation percentage between covered and uncovered for capital costs to be based on the levels prior to the NGI being operational. The ERA also applied the capital cost allocation consistently between AA4 and AA5 capital expenditure. For operating expenditure, the ERA has acknowledged that some corporate costs may increase with the additional capacity and has applied the cost allocation percentages with the NGI included where appropriate. Further information on allocation of costs between covered and uncovered portions of the pipeline is available in Attachments 4 and 5 of this Draft Decision.

Reference tariff

22. For AA5, GGT has retained the three-part tariff structure that currently applies. In absence of any reason to amend the tariff structure and allocation of total revenue between tariff components, the ERA considers GGT's proposed tariff structure is consistent with the requirements of the NGR. For the purposes of the draft decision,

the ERA has applied the same percentage allocation of total revenue to determine its draft decision reference service tariff (Table 3.10).

Table 3.10 ERA draft decision reference service tariff for AA5 (\$ nominal)

Tariff Component	Tariff
Toll (\$/GJ)	0.143212
Capacity reservation (\$/GJ MDQ km)	0.001099
Throughout (\$GJ/km)	0.000282

23. The ERA's draft decision toll, capacity reservation and throughput tariffs for AA5 are:

- 8.8 per cent, 37.7 per cent, and 31.2 per cent *higher* than the current (1 January to 31 December 2024) approved tariffs for the GGP (Table 3.11).
- 16.7 per cent, 16.9 per cent and 19.7 per cent *lower* than GGT's proposed AA5 tariffs for the GGP (Table 3.12).

Table 3.11: Comparison of ERA draft decision tariff and current tariff for the GGP (\$ nominal)

Tariff component	Current tariff (1 January 2024 to 31 December 2024)	ERA draft decision AA5 tariff	Percentage change (%)
Toll (\$/GJ)	0.131672	0.143212	8.8
Capacity reservation (\$/GJ MDQ km)	0.000798	0.001099	37.7
Throughout (\$GJ/km)	0.000215	0.000282	31.2

Source: ERA tariff model

Table 3.12: Comparison of GGT proposed AA5 tariff and ERA draft decision AA5 tariff for the GGP (\$ nominal)

Tariff component	GGT proposed AA5 tariff	ERA draft decision AA5 tariff	Percentage change (%)
Toll (\$/GJ)	0.171836	0.143212	-16.7
Capacity reservation (\$/GJ MDQ km)	0.001323	0.001099	-16.9
Throughout (\$GJ/km)	0.000351	0.000282	-19.7

Source: ERA tariff model

Required Amendment

- 3.2 Schedule A of the proposed revised access arrangement, which details the reference service tariff, should be amended to reflect the ERA approved tariffs set out in Table 3.10 of Draft Decision Attachment 3.

Tariff variation mechanism

24. The NGR requires the access arrangement to include a mechanism (a “reference tariff variation mechanism”) to vary the reference tariff over the course of the access arrangement period. Such a mechanism may, among other things, provide for variation of the reference tariff because of a cost pass through for a defined event.¹²
25. The GGP access arrangement currently contains two cost pass through events: change in law event and tax change event. For AA5, GGT has proposed six new cost pass through events to mitigate certain risks (see Table). GGT submitted:

Our operating environment can be unpredictable and events beyond our control can materially change our expenditure within a regulatory period. In recent years, we have observed unexpected events more frequently including natural disaster events, cyber security events, and volatility due to global events.

As a result, the insurance market is also becoming more volatile and unpredictable for assets like the GGP and other infrastructure assets in APA’s portfolio.

To mitigate these risks, we propose a wider range of cost pass through events for high cost events that could not have reasonably been forecast ahead of time.¹³

26. As noted by GGT, all the proposed cost pass through events (except for the carbon cost event) currently exist in the access arrangements for gas pipelines operating on the east coast of Australia that are regulated by the Australian Energy Regulator (AER).¹⁴
27. GGT’s proposed cost pass through events are set out in Section 4.5.2 of the proposed access arrangement. The ERA’s consideration of these events is guided by the ERA’s position on the intended purpose of a cost pass through event variation mechanism. That is, the ERA considers that a cost pass through event variation mechanism is not designed for complex cost assessments that include discretionary expenditures and/or require stakeholder consultation before a determination can be made by the regulator on whether to allow a change in reference tariffs to recover the expenditures during the access arrangement period. Rather, a cost pass through event variation mechanism is most suited to recover costs that are non-contentious, clearly ascertained and easily verified; and that were not reasonably forecast and beyond the control of the service provider.

Change in law and tax change events

28. GGT has retained the existing change in law and tax change events for AA5 with some minor drafting and formatting amendments. Consistent with these amendments, the ERA notes the words “Change in law event—means:” should most likely form part of the drafting in sub-section 4.5.2(c) a). In any case, the ERA considers that further formatting amendments to remove the sub-section lettering (and replace with headings) would improve the overall readability of Section 4.5.2(c). For example:

¹² NGR, rule 97.

¹³ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 114.

¹⁴ These pipelines are APA owned pipelines and include the Amadeus Gas Pipeline, Roma to Brisbane Pipeline and the Victorian Transmission System.

4.5.2 Cost Pass-through Reference Tariff Variation Mechanism

- (a) If one or more ...
- (b) Before Service Provider ...
- (c) The following is a Cost Pass-through Event for the purposes of section 4.5.2(a):
 - (i) change in law event;
 - (ii) change in tax change event;
 - (iii) insurance cap event;
 - (iv) insurer credit risk event;
 - (v) natural disaster event;
 - (vi) terrorism event;
 - (vii) carbon cost event;
 - (viii) regulatory change event;

where:

a) Change in law event means ...

b) Change in tax change event means ...

c) Insurance cap event means ...

d) Insurer credit risk event means ...

e) Natural disaster event means ...

f) Terrorism event means ...

g) Carbon cost event means ...

h) Regulatory change event means ...

- (d) A Cost Pass-through Event is considered material ...

...

- (j) If the Regulator does not approve ...

29. The ERA considers the amendments made by GGT to the change in law and tax change events are administrative in nature and given that there were no submissions raising any concerns over GGT's proposal, the ERA approves GGT's change in law and tax change events as set out in Section 4.5.2(c) of the proposed access arrangement. However, as set out above, the ERA recommends that GGT should consider further formatting amendments to improve the overall readability of this section in the proposed access arrangement.

Insurance coverage (cap) and insurer credit risk events

30. GGT has proposed new cost pass through events to cover insurance coverage and insurer credit risk. The ERA notes that the proposed definition of “insurance coverage event” differs between GGT’s Proposal Overview and proposed access arrangement, including the name of the event.¹⁵ For its considerations, the ERA has used the definition in the proposed access arrangement as this definition is more detailed in its explanation.¹⁶ The ERA further notes that the definition of “insurer credit risk event” varies slightly between GGT’s Proposal Overview and proposed access arrangement, and while the variation does not materially affect the definition, the ERA has used the definition as set out in the proposed access arrangement for its considerations.

31. GGT submits that the insurance related cost pass through events are needed for the following reasons:

An insurance coverage event is a prudent and efficient way to mitigate the risk of GGP incurring losses exceeding our insurance coverage or for gaps in the insurance coverage caused by withdrawn capacity or where the cost of coverage cannot be economically justified.

GGT operates within the business’ risk framework to reasonably withstand unpredictable events outside of our control. Our insurance limits are commensurate with risks associated with our operations and customers, as well as industry standards. In some instances, the cost of insurance to mitigate the risk is only available at a prohibitively high cost given the probability of the event occurring.

Without a pass through provision, GGP will need to set aside additional annual insurance allowance to address these risks. In turn, this means our customers would bear additional costs irrespective of whether such an event occurs.

...

An insurer credit risk pass through event is a prudent and efficient way to mitigate the risk with our customers, while providing us with a reasonable opportunity to recover the efficient costs incurred as a result of unpredicted insurance market conditions. This type of event cannot be reasonably insured against (in part, or at all) on reasonable or commercial or economic terms.

APA/GGT cannot reasonably prevent our insurer becoming insolvent or substantially mitigate the cost impact of such an unpredictable event. If, for reasons beyond our control, an insurer is unable to pay all, or a part of, a claim, this would significantly impact our ability to deliver services to our customers. The occurrence of increased insurance premiums from alternative insurers (where the original insurer becomes insolvent) is also beyond our control.¹⁷

32. Insurance is a necessary consideration and cost for all service providers. However, the ERA considers that GGT’s proposal to include insurance related cost pass through events is unworkable for the following reasons and given these reasons, GGT must delete the “insurance cap event” and “insurer credit risk event” from Section 5.4.2(c) of the proposed access arrangement.

¹⁵ In GGT’s Proposal Overview (page 117) GGT has proposed the inclusion of an ‘insurance coverage event’, but in the proposed access arrangement (section 4.5.2(c)) it is an ‘insurance cap event’.

¹⁶ The ERA notes that the definition for ‘insurance cap event’ in the proposed access arrangement contains formatting, grammatical and reference errors (for example, the reference to Roma to Brisbane Pipeline (RBP) should be a reference to Goldfields Gas Pipeline (GGP)).

¹⁷ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 121.

Purpose of cost pass through event variation mechanism

33. As indicated, the ERA considers that the cost pass through event variation mechanism is designed for costs that are non-contentious, clearly ascertained and easily verified; and that could not be reasonably forecast and were beyond the control of the service provider. Insurance costs do not meet these criteria:
- The market for insurance is complex and effective insurance policies are bespoke by nature. That is, insurance policies and resulting costs are directly dependent on the operational needs of and decisions made by the insured party. As such, the ERA considers that insurance costs are within the control of the service provider. For example, GGT (as the insured party) has control over the type of insurance, level of insurance coverage and insurance provider. Additionally, the choice of insurance is broad so it would be difficult for a regulator to determine the necessity of the insurance coverage without the service provider submitting comprehensive records.
 - Under the access arrangement framework, the ERA does not approve insurance policies; rather it approves an allocation of operating expenditure that is used to cover insurance related costs. The ERA notes that GGT has increased its level of corporate operating expenditure in its proposal for AA5 to cover, among other things, increasing insurance costs. While GGT has cited increasing insurance costs, it has not provided any specific details of the insurance policies to which these costs are attributed to. In any case, GGT's insurance costs have been reasonably forecast and are included in GGT's access arrangement proposal as part of its proposed operational expenditure.¹⁸

Insurance risk

34. Insurance provides a level of protection against future risk. In the case of network infrastructure, there must be an efficient allocation of risk between the network service provider and its customers (end users). The ERA considers that a service provider is best placed to manage insurance risk for its network and the services it provides. The introduction of cost pass throughs for insurance coverage and insurer credit risk events will allow GGT to pass insurance risk, and associated costs, to its customers. The ability for service providers to pass on insurance risk to its customers may alter the incentives for prudent and efficient procurement of insurance.

Insurance cost pass through assessments

35. While insurance coverage and insurer credit risk cost pass through events feature in access arrangements for some other Australian electricity and gas networks, there have been no actual cost pass through applications or assessments for these events.¹⁹ The AER highlighted this point in its guidance note on insurance coverage pass through events, where it stated:

¹⁸ The ERA's assessment of GGT's forecast operational expenditure is set out in Draft Decision Attachment 5.

¹⁹ The National Electricity Rules list 'an insurance event' as a standard cost pass through event for determinations relating to an electricity transmission network (NER, clauses 6A.6.9 and 6A.7.3(a1)).

The decision to develop this guidance stemmed from initial representations from a number of [network service providers] that considered it would be beneficial to provide the broader industry with greater clarity and guidance around the matters we are likely to have regard to in assessing an insurance coverage pass through event. This is particularly the case given we have not had to assess such a pass through event in the past.²⁰

36. As indicated by the AER, the decision to develop the guidance note was in response to service providers seeking clarity and guidance around the assessment of insurance coverage pass through events. The guidance note sets out guiding principles that focus on the information that should be provided by the network service provider, and include the following information categories:
- Historical information and market conditions prior to the event.
 - Modelling analysis of possible losses from insured events.
 - Risk mitigation considerations and actions.
 - Customer engagement.
 - Appropriateness of cover, structure and premiums.
 - Corporate and risk governance.
37. While the guiding principles cover the type of information that will influence the AER's assessment of insurance coverage pass through event applications, the AER makes clear that applications will still "need to be considered on a case by case basis" and that there is "no single factor [that] will determine the outcome of [its] assessment".²¹ Given the AER has yet to undertake an insurance coverage cost pass through assessment, it is uncertain whether it is feasible to undertake such an assessment, notwithstanding the availability of information in the AER's guideline. Whilst the ERA considers that the AER's guiding principles are comprehensive and set out the minimum information required for an assessment of an insurance related cost pass through event, it is the ERA's view that the uncertainty and complexity of such ex-post assessments should be avoided.

Required Amendment

- 3.3 GGT must delete the "insurance cap event" and "insurer credit risk event" from Section 4.5.2(c) of the proposed access arrangement.

Natural disaster and terrorism events

38. GGT has proposed new cost pass through events to cover natural disasters and acts of terrorism. The proposed definitions for the cost pass through events are as follows:

Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the access arrangement period that changes the costs to the Service Provider in providing the Reference Service, provided the cyclone, fire, flood or earthquake or other event was:

²⁰ AER, *Final guidance note: Guidance note on insurance coverage pass through events*, July 2021, p. 7 ([online](#)) (accessed July 2024).

²¹ AER, *Final guidance note: Guidance note on insurance coverage pass through events*, July 2021, p. 9.

- a) a consequence of an act or omission that was necessary for the Service Provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or
- b) not a consequence of any other act or omission of the Service Provider.

Note: In making a determination on a natural disaster event pursuant to [TBA] of this Access Arrangement, the ERA will have regard to, amongst other things:

- i. whether the Service Provider has insurance against the event; and
- ii. the level of insurance that an efficient and prudent service provider would obtain in respect of the event.²²

Terrorism event means an act (including, but not limited to, the use of force or violence, or the threat of force or violence, or a malicious act to access and/or disrupt computer systems or other information communication technologies including operational technology systems) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

- a) from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and
- b) changes the costs to the Service Provider in providing the Reference Service.

Note: In making a determination on a [terrorism event]²³ event pursuant to [TBA] of this Access Arrangement, the ERA will have regard to, amongst other things:

- i. whether the Service Provider has insurance against the event;
- ii. the level of insurance that an efficient and prudent Service Provider would obtain in respect of the event; and
- iii. whether a declaration has been made by a relevant government authority that a terrorism event has occurred.²⁴

39. GGT submitted that:

- A natural disaster event is a prudent and efficient way to mitigate the risk of unpredictable and extreme weather events that are beyond its control.²⁵
- A terrorism event mitigated the risk of liability from “devastating and deliberate damage” that impacts its ability to deliver agreed pipeline services to customers.²⁶

40. The occurrence of extreme weather events in Australia in recent years has been notable.²⁷ Additionally, terrorism remains a threat to infrastructure assets following various data breaches of service companies in Australia.²⁸ For these reasons, the ERA considers that GGT’s proposal to include cost pass through events to cover natural

²² GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 118.

²³ GGT makes reference to ‘natural disaster’ in its proposed definition, which the ERA has assessed as an error.

²⁴ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 119.

²⁵ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 121.

²⁶ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 122.

²⁷ See, for examples, Australian Research Council, ‘The State of Weather and Climate Extremes 2022’ ([online](#)) (accessed July 2024).

²⁸ See, for examples, Office of the Australian Information Commissioner, ‘Notifiable data breaches publications’ ([online](#)) (accessed July 2024).

disasters and acts of terrorism to be reasonable. While GGT can undertake direct activities to mitigate the impact of such events (for example, erecting structures and implementing security strategies to protect pipeline assets from extreme weather and terrorist acts), these events are beyond the control of GGT. Additionally, the actual nature and magnitude of these events, and the resulting outcomes, remain unknown until they occur.

41. The ERA makes the following observations:

- GGT’s proposed terrorism event definition includes a provision that requires a declaration, by a relevant government authority, that a terrorism event has occurred. The ERA considers that a similar provision should also exist in GGT’s proposed natural disaster event definition to require a declaration, by a relevant government authority, that a natural disaster event has occurred.
- While GGT has proposed the inclusion of a natural disaster cost pass through event for AA5 in its Proposal Overview, GGT has not included the proposed natural disaster event definition in Section 4.5.2(c) of the proposed access arrangement, which includes the definitions for all cost pass through events. The ERA requires GGT to correct this oversight.
- The ERA further notes that the proposed terrorism event definition set out in GGT’s Proposal Overview differs to the definition that has been included in the proposed access arrangement. The ERA requires GGT to amend the terrorism event definition in the proposed access arrangement to match the definition that is set out in GGT’s Proposal Overview.

Required Amendment

- 3.4 GGT must amend the definition of “natural disaster event” to include the following provision: “iii. whether a declaration has been made by a relevant government authority that a natural disaster event has occurred”.
- 3.5 GGT must amend Section 4.5.2(c) of the proposed access arrangement to include the meaning of “natural disaster event”, which must be the same definition that is set out in GGT’s Proposal Overview (subject to Required Amendment 3.4 above).
- 3.6 GGT must amend the meaning of “terrorism event” in Section 4.5.2(c) of the proposed access arrangement to match the definition that is set out in GGT’s Proposal Overview.

Carbon cost event

42. GGT has proposed a new cost pass through event for carbon costs. GGT noted that a carbon cost event exists in the access arrangements for the Dampier to Bunbury Natural Gas Pipeline and the Mid-West and South-West Gas Distribution Systems, which were approved by the ERA. GGT submitted:

In Western Australia, two businesses have been approved to pass through costs incurred as a result of actions taken to comply with obligations to reduce greenhouse gas emissions:

...

We are proposing similar provisions for the GGP access arrangement. We consider that a carbon cost mechanism offers flexibility in the dynamic and complex energy sector. For example, if the prices of carbon offsets change significantly (up or down) we would be seeking to use the cost-pass provisions for carbon cost events discussed in section 13.4.3 [Purchase of carbon offsets].²⁹

43. The ERA notes that the definition of “carbon cost event” varies slightly between GGT’s Proposal Overview and proposed access arrangement, and while the variation does not materially affect the definition, the ERA has used the definition as set out in the proposed access arrangement for its considerations. The definition is as follows (with minor drafting amendments that the ERA considers appropriate as shown):

Carbon cost event means:

- (i) ~~An unexpected~~ Unexpected costs, including any carbon costs attributable to the operation of the ~~GGT~~ GGP whether incurred by the Operator directly, by payment to any third party, or by reimbursement to any of its Related Bodies Corporate where any of those persons are liable for the payment of such ~~Carbon Costs~~ carbon costs.
- (ii) Carbon costs means any costs arising in relation to the management of and complying with any obligations or liabilities that may arise under any Law or government policy in relation to greenhouse gas emissions.

Note: When determining a carbon cost event, such costs may include the costs reasonably incurred by GGT or its Related Bodies Corporate of actions taken by any of them to reduce greenhouse gas emissions or mitigate their effect, and the costs incurred by the Operator or its Related Bodies Corporate in acquiring and disposing of or otherwise trading emissions permits and any penalties reasonably incurred by any of the Operator or its Related Bodies Corporate in managing or complying with such obligations, provided that such penalties are not incurred as a result of the Operator or its Related Bodies Corporate failing to act as a Reasonable and Prudent Person.³⁰

44. GGT’s proposed definition covers costs, including carbon costs, attributable to the operation of the GGP whether incurred directly by GGT as the operator, or indirectly by payments or reimbursements to third parties or related body corporates. The ERA considers that the definition needs to be refined (as set out below) to ensure only carbon costs that are directly related to the operation of the GGP are captured as a carbon cost event.

Carbon cost event means:

- (i) Unexpected ~~costs, including any~~ carbon costs directly attributable to the operation of the GGP whether incurred by the Operator directly ... for the payment of such carbon costs.
- (ii) Carbon costs means any costs directly attributable to the operation of the GGP arising in relation to the management ... in relation to greenhouse gas emissions.

Note: When determining a carbon cost event, such costs:

- (a) Must be costs that are directly attributable to the operation of the GGP.
- (b) May ~~may~~ include the costs reasonably incurred by GGT or its Related Bodies Corporate ... to act as a Reasonable and Prudent Person.

²⁹ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, pp. 122-123.

³⁰ GGT, *Goldfields Gas Pipeline AA5 - Proposed Revised Access Arrangement*, 1 January 2024, Section 4.5.2(c).

45. The ERA further considers that the definition of carbon cost event needs to be clear in its application to both material increases and decreases in costs, like the definition of change in law event where there is an explicit reference to material increases or decreases in costs.³¹ As indicated by GGT, the carbon cost pass through event is intended to capture actual carbon offset costs. GGT has submitted that the cost of carbon offsets is uncertain and that if the price of offsets were to increase or decrease significantly, it would be seeking to use the cost pass through provisions in the access arrangement (carbon cost event) to pass through actual carbon offset costs.³²
46. Subject to amending the definition of carbon cost event to address ERA's considerations above, the ERA considers GGT's proposal to include a cost pass through event for carbon costs to be reasonable given its obligations under the Federal Government's Safeguard Mechanism. For AA5, GGT has included a forecast of operating expenditure for the Safeguard Mechanism, which includes the purchase of carbon offsets.³³

Required Amendment

- 3.7 GGT must amend the definition of "carbon cost event" in Section 4.5.2(c) of the proposed access arrangement, to:
- a. ensure only carbon costs that are directly related to the operation of the GGP are captured as a carbon cost event; and
 - b. make explicit that a carbon cost event applies to both material increases and material decreases in costs.

Regulatory change event

47. GGT has proposed to include a new regulatory cost pass through event "as a catch all for changes that do not fall within any of the other [cost pass through] categories."³⁴ If approved, this cost pass through event will enable GGT to recover the efficient costs of providing services for unforeseen and unanticipated events. The proposed regulatory event is defined as follows:

Regulatory change event means a change in regulatory obligation or requirement that:

- a) falls within no other category of pass through event; and
- b) occurs during the course of an access arrangement period;
- c) substantially affects the manner in which the Service Provider provides the Firm Transportation Service; and
- d) materially increases or materially decreases the costs of providing these services.³⁵

³¹ GGT, *Goldfields Gas Pipeline AA5 - Proposed Revised Access Arrangement*, 1 January 2024, Section 4.5.2(c).

³² GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 112.

³³ The ERA's assessment of GGT's operating expenditure is set out in Draft Decision Attachment 5.

³⁴ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 124.

³⁵ GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 116.

48. The ERA considers that a general “catch-all” cost pass through event is unnecessary. The existing change in law event as set out in GGT’s proposed access arrangement is broad in its definition to sufficiently capture “regulatory obligations or requirements”. Unless GGT can provide examples of regulatory obligations or requirements for consideration by the ERA that would not be captured under the change in law event, the ERA requires GGT to delete the regulatory change event from the proposed access arrangement.

Required Amendment

- 3.8 GGT must delete the “regulatory change event” from Section 4.5.2(c) of the proposed access arrangement.

Materiality of cost pass through provisions

49. The cost pass through events in GGT’s proposed access arrangement are subject to a materiality threshold. GGT has not proposed any changes to the provision which sets this threshold. The provision states:

A Cost Pass-through Event is considered material where the cumulative costs of the event exceed 1.0% of the Total Revenue for the Covered Pipeline in the years in which costs are incurred. Total Revenue is the forecast revenue derived from the building block approach calculated in accordance with rule 76 of the NGR and approved by the regulator in the 2024 Final Decision.³⁶

50. Based on the ERA’s draft decision approved total revenue, a cost pass through event would be considered material if it exceeded \$638,460 (on average) in one year. The ERA considers that to encourage efficient regulatory costs, the materiality threshold should be adjusted to a minimum value of \$1 million. That is, a cost pass through event is considered material where the cumulative costs of the event exceed \$1 million in the years in which the costs are incurred. Given the access arrangement regime is designed to provide the service provider with sufficient revenue to operate its pipeline, GGT should, as an prudent and efficient operator, be able to manage any unforeseen costs that fall below a materiality threshold of \$1 million as part of its usual business operations.

Required Amendment

- 3.9 GGT must amend section 4.5.2(d) of the proposed access arrangement to change the materiality threshold to a minimum value of \$1 million.

Notification of cost pass through event

51. Under Section 4.5.2(e) of the proposed access arrangement, GGT has a minimum notice period of 40 business days prior to the date on which the proposed variation to the reference tariff is intended to take effect to notify the ERA of a cost pass through

³⁶ GGT, *Goldfields Gas Pipeline AA5 - Proposed Revised Access Arrangement*, 1 January 2024, Section 4.5.2(d).

event.³⁷ Once notified, the ERA must use its reasonable endeavours to make an assessment prior to the scheduled tariff variation date.

52. The ERA considers that, with the introduction of new cost pass through events in AA5 for natural disasters, terrorism and carbon costs, there may need to be an increase to the minimum notification period. While there is a provision that allows the ERA to specify the date that the tariff variation will take effect in circumstances where the scheduled tariff variation date has passed, this adds to the administrative burden for all parties. That is, further tariff adjustments are required to take into account intervals of delay between the scheduled tariff variation date and the ERA's specified (approved) variation date, and the notification period required for GGT and its customers to adjust their invoicing and payments accordingly.
53. The ERA recommends that GGT consider adjusting the minimum notification period for natural disaster, terrorism, and carbon cost events to provide the ERA with adequate time to undertake a thorough assessment, which may include consultation with stakeholders and/or obtaining independent specialist advice.

³⁷ GGT's reference tariff variation mechanism provides for annual variations to the reference tariff that take effect on 1 January each year.

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Appendix 2 National Gas Rules

The National Gas Law (NGL) and National Gas Rules (NGR), as enacted by the *National Gas (South Australia) Act 2008*, establish the legislative framework for the independent regulation of certain gas pipelines in Australia. The *National Gas Access (WA) Act 2009* implements a modified version of the NGL and NGR in Western Australia.

The legislative framework for the regulation of gas pipelines includes a central objective, being the national gas objective, which is:

... to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to—

- (a) price, quality, safety, reliability and security of supply of natural gas; and
- (b) the achievement of targets set by a participating jurisdiction—
 - (i) for reducing Australia’s greenhouse gas emissions; or
 - (ii) that are likely to contribute to reducing Australia’s greenhouse gas emissions.

Note—

The AEMC must publish targets in a targets statement: see section 72A.³⁸

The following extracts of the NGR, as they apply in Western Australia, are provided for information to assist readers.

72 Specific requirements for access arrangement information relevant to price and revenue regulation

- (1) The access arrangement information for a full access arrangement proposal (other than an access arrangement variation proposal) must include the following:
 - (a) if the access arrangement period commences at the end of an earlier access arrangement period:
 - (i) capital expenditure (by asset class) over the earlier access arrangement period; and
 - (ii) operating expenditure (by category) over the earlier access arrangement period; and
 - (iii) usage of the pipeline over the earlier access arrangement period showing:
 - (A) for a distribution pipeline, minimum, maximum and average demand and, for a transmission pipeline, minimum, maximum and average demand for each receipt or delivery point; and
 - (B) for a distribution pipeline, customer numbers in total and by tariff class and, for a transmission pipeline, user numbers for each receipt or delivery point;
 - (b) how the capital base is arrived at and, if the access arrangement period commences at the end of an earlier access arrangement

³⁸ NGL, section 23.

The national gas objective has changed since the last review of GGT’s access arrangement. The amended objective came into effect in Western Australia on 25 January 2024. See: *Western Australian Government Gazette 24 January 2024 No.8* ([online](#)) (accessed July 2024).

- period, a demonstration of how the capital base increased or diminished over the previous access arrangement period;
- (c) the projected capital base over the access arrangement period, including:
 - (i) a forecast of conforming capital expenditure for the period and the basis for the forecast; and
 - (ii) a forecast of depreciation for the period including a demonstration of how the forecast is derived on the basis of the proposed depreciation method;
 - (d) to the extent it is practicable to forecast pipeline capacity and utilisation of pipeline capacity over the access arrangement period, a forecast of pipeline capacity and utilisation of pipeline capacity over that period and the basis on which the forecast has been derived;
 - (e) a forecast of operating expenditure over the access arrangement period and the basis on which the forecast has been derived;
 - (f) [Deleted];
 - (g) the allowed rate of return for each regulatory year of the access arrangement period;
 - (h) the estimated cost of corporate income tax calculated in accordance with rule 87A, including the allowed imputation credits referred to in that rule;
 - (i) if an incentive mechanism operated for the previous access arrangement period—the proposed carry-over of increments for efficiency gains or decrements for efficiency losses in the previous access arrangement period and a demonstration of how allowance is to be made for any such increments or decrements;
 - (j) the proposed approach to the setting of tariffs including:
 - (i) the suggested basis of reference tariffs, including the method used to allocate costs and a demonstration of the relationship between costs and tariffs; and
 - (ii) a description of any pricing principles employed but not otherwise disclosed under this rule;
 - (k) the service provider's rationale for any proposed reference tariff variation mechanism;
 - (l) the service provider's rationale for any proposed incentive mechanism;
 - (m) the total revenue to be derived from pipeline services for each regulatory year of the access arrangement period.
- (2) The access arrangement information for an access arrangement variation proposal related to a full access arrangement must include so much of the above information as is relevant to the proposal.
 - (3) Where the [ERA] has published financial models under rule 75A, the access arrangement information for a full access arrangement proposal must be provided using the financial models.

73 Basis on which financial information is to be provided

- (1) Financial information must be provided on:
 - (a) a nominal basis; or
 - (b) a real basis; or

- (c) some other recognised basis for dealing with the effects of inflation.
- (2) The basis on which financial information is provided must be stated in the access arrangement information.
- (3) All financial information must be provided, and all calculations made, on the same basis and using any applicable financial models published by the [ERA] under these Rules.

...

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).

...

92 Revenue equalisation

- (1) A full access arrangement must include a mechanism (a reference tariff variation mechanism) for variation of a reference tariff over the course of an access arrangement period.
- (2) Except to the extent that subrule (3) applies, the reference tariff variation mechanism must be designed to equalise (in terms of present values):
 - (a) forecast revenue from reference services for the access arrangement period; and
 - (b) the portion of total revenue allocated to reference services for the access arrangement period.
- (3) If there is an interval between a revision commencement date stated in a full access arrangement and the date on which revisions to the access arrangement actually commence (the interval of delay):
 - (a) reference tariffs, as in force at the end of the previous access arrangement period, must continue without variation for the interval of delay; but
 - (b) the operation of this subrule must be taken into account in fixing reference tariffs for the new access arrangement period, such that there may be an adjustment for any under-recovery or over-recovery by the service provider as a result of the continuation of reference tariffs from the previous access arrangement period during the interval of delay.
- (4) For the avoidance of doubt, once the revisions to an access arrangement actually commence the access arrangement period to which the revised access arrangement applies includes the interval of delay.

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 [ERA].
- (3) The [ERA] may, however, permit the allocation of the costs of rebateable services, in whole or part, to reference services if:
 - (a) the [ERA] 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 [ERA] 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.

...

95 Tariffs – transmission pipelines

- (1) A tariff for a reference service provided by means of a transmission pipeline must be designed:
 - (a) to generate from the provision of each reference service the portion of total revenue referable to that reference service; and
 - (b) as far as is practicable consistently with paragraph (a), to generate from the user, or the class of users, to which the reference service is provided, the portion of total revenue referable to providing the reference service to the particular user or class of users.
- (2) The portion of total revenue referable to a particular reference service is determined as follows:
 - (a) costs directly attributable to each reference service are to be allocated to that service; and
 - (b) other costs attributable to reference services are to be allocated between them on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the [ERA].
- (3) The portion of total revenue referable to providing a reference service to a particular user or class of users is determined as follows:
 - (a) costs directly attributable to supplying the user or class of users are to be allocated to the relevant user or class; and
 - (b) other costs are to be allocated between the user or class of users and other users or classes of users on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the [ERA].

96 Prudent discounts

- (1) Despite the other provisions of this Division, the [ERA] may, on application by a service provider, approve a discount for a particular user or prospective user or a particular class of users or prospective users.
- (2) The [ERA] may only approve a discount under this rule if satisfied that:
 - (a) the discount is necessary to:
 - (i) respond to competition from other providers of pipeline services or other sources of energy; or
 - (ii) maintain efficient use of the pipeline; and
 - (b) the provision of the discount is likely to lead to reference or equivalent tariffs lower than they would otherwise have been.

Note:

Even though a user's incremental load is retained at a discounted price, overall tariffs may be lower because of the user's contribution to fixed costs.

- (3) If the [ERA] approves a discount under this rule, the [ERA] may also approve allocation of the cost, or part of the cost, of providing the discount to the costs of providing a reference or other service in one or more future access arrangement periods.
- (4) In this rule:

equivalent tariff means the tariff that is likely to have been set for a service that is not a reference service if the service had been a reference service.

97 Mechanics of reference tariff variation

- (1) A reference tariff variation mechanism may provide for variation of a reference tariff:
 - (a) in accordance with a schedule of fixed tariffs; or
 - (b) in accordance with a formula set out in the access arrangement; or
 - (c) as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax); or
 - (c1) as a result of the application of a portion of the revenue generated from the sale of rebateable services to reduce the reference tariff as contemplated under rule 93(3); or
 - (d) by the combined operation of 2 or more or the above.
- (2) A formula for variation of a reference tariff may (for example) provide for:
 - (a) variable caps on the revenue to be derived from a particular combination of reference services; or
 - (b) tariff basket price control; or
 - (c) revenue yield control; or
 - (d) a combination of all or any of the above.
- (3) In deciding whether a particular reference tariff variation mechanism is appropriate to a particular access arrangement, the [ERA] must have regard to:
 - (a) the need for efficient tariff structures; and
 - (b) the possible effects of the reference tariff variation mechanism on administrative costs of the [ERA], the service provider, and users or potential users; and

- (c) the regulatory arrangements (if any) applicable to the relevant reference services before the commencement of the proposed reference tariff variation mechanism; and
 - (d) the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
 - (d1) the risk sharing arrangements implicit in the access arrangement; and
 - (e) any other relevant factor.
- (4) A reference tariff variation mechanism must give the [ERA] adequate oversight or powers of approval over variation of the reference tariff.
- (5) Except as provided by a reference tariff variation mechanism, a reference tariff is not to vary during the course of an access arrangement period.