



Economic Regulation Authority

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

Attachment 5: Operating expenditure

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 2025

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

Attachment 5. Summary

GGT has proposed \$130.80 million for operating expenditure for AA5. Estimated operating expenditure for AA4 is \$109.82 million.

GGT forecast its AA5 operating expenditure using two approaches: the base-step-trend method and a specific forecast. To determine forecasts using the base-step-trend method, GGT used its actual operating expenditure from the most recent complete calendar year at the time of its proposal, being 2022.

The ERA has considered information provided by GGT and findings from the ERA's technical consultant, EMCa, to determine the amount of operating expenditure which meets the requirements of the National Gas Rules (NGR).

Base year

GGT's base year operating costs were \$27.32 million. GGT proposed to adjust the base year upwards by \$0.21 million, to account for a forecast increase in capacity from the Northern Goldfields Interconnect (NGI) in AA5.

GGT also proposed to remove \$3.27 million in non-recurrent costs (including payroll adjustment, demand side management and APA operations and commercial management fees). In addition, GGT then proposed to remove \$0.76 million of costs relating to the Security of Critical Infrastructure (SoCI) that it has proposed to forecast separately.

The ERA has determined that an additional \$4.33 million in expenditure (from corporate costs, pipeline operations and major expenditure jobs) should be removed from the base year. The ERA has determined an efficient base year cost of \$20.24 million per year for AA5, which results in a total of \$101.19 million in AA5 for base operating expenditure.

Specific forecasts and step changes

GGT has specifically forecast its expenditure for SoCI due to the varying costs to be incurred each year. GGT's proposed expenditure for SoCI is \$3.71 million for AA5.

GGT also proposed three step changes in its forecast operating expenditure for AA5, totalling \$7.00 million.

The ERA has determined that one step change should be accepted in full, one accepted in part and one not be included as it does not meet the criteria for inclusion. As a result, the ERA has determined a total of \$4.07 million in step changes for GGT's operating expenditure in AA5.

Trends

GGT has included operating expenditure to account for forecast increases in real labour costs in AA5 (costs in addition to inflation). GGT used a similar method to the ERA's preferred method for determining labour cost escalation. Unlike the ERA's preferred method of using five years of data, GGT used four years of data as it said that the fifth year was not representative of the future period.

Since the release of the Western Australian State Budget in May 2024, more recent data is available, and so the ERA has used a five-year average that amends GGT's proposed escalation of 0.67 per cent down to 0.58 per cent.

This results in a reduction of GGT's proposed real labour escalation from \$2.51 million down to \$1.93 million.

Draft decision operating expenditure

The ERA has determined that the total efficient amount for operating expenditure for AA5 is \$110.90 million.

Summary of required amendments

- 5.1 GGT must amend its access arrangement information to revise its AA5 operating expenditure to \$110.90 million (\$ million real as at 31 December 2023), consistent with Table 5.8 of Draft Decision Attachment 5.

Regulatory requirements

1. Under the regulatory framework, operating expenditure means:

Operating, maintenance and other costs and expenditure of a non-capital nature incurred in providing pipeline services and includes:

- (a) expenditure incurred in increasing long-term demand for pipeline services and otherwise developing the market for pipeline services; and
 - (b) expenditure, in providing pipeline services, that contributes to meeting emissions reduction targets.¹
2. A forecast of operating expenditure is one of the components (building blocks) for determining the service provider's total revenue requirement using the building block approach, which is required by the regulatory framework set out in the NGR.² The total revenue requirement is the amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline (that is, the service provider's cost of service).
 3. The criteria governing operating expenditure is set out in rule 91.³
 - The operating expenditure must be expenditure that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable costs of delivering pipeline services in a manner consistent with the achievement of the national gas objective.
 - The forecast of required operating expenditure must be for expenditure that is allocated between reference services; other services provided by means of the covered (regulated) pipeline; and other services provided by means of uncovered (unregulated) parts of the pipeline (if any), in accordance with the allocation provisions set out in rule 93.
 4. Rule 71 sets out the considerations that the regulator may and should have regard to when evaluating whether operating expenditure satisfies the governing criteria. The regulator:
 - May, without embarking on a detailed investigation, infer compliance from the operation of an incentive mechanism or on any other basis that is considered appropriate.
 - Must consider and give appropriate weight to, submissions and comments received in response to an invitation for submissions on whether a service provider's access arrangement proposal should be approved.

¹ Extracts of the NGR that are referenced in this document are provided in Appendix 2 for information. NGR, rule 69. The definition of operating expenditure has changed since the last review of ATCO's access arrangement. The amended definition supports the new national gas objective (which includes an emissions reduction objective) that came into effect in Western Australia on 25 January 2024.

² NGR, rule 76.

³ Rule 91 was amended on 1 February 2024 to support the new national gas objective. The ERA has applied the amended rule in this draft decision.

5. The NGR require the following operating expenditure information to be included in the service provider's Access Arrangement Information (AAI).⁴ 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.
- Where an access arrangement commences at the end of an earlier access arrangement period, AAI must include operating expenditure (by category) for each year of the earlier access arrangement period (rule 72(1)(a)(ii)).
 - AAI must include a forecast of operating expenditure over the forthcoming access arrangement period and the basis on which the forecast has been derived (rule 72(e)).

⁴ NGR, rule 72.

GGT proposal

6. GGT has proposed \$130.80 million for operating expenditure for AA5. Estimated operating expenditure for AA4 is \$109.82 million.
7. Table 5.1 shows GGT's estimated operating expenditure for AA4. These figures are actual operating expenditure for January 2020 to December 2022 and estimates for 2023 and 2024.

Table 5.1: GGT Actual and forecast AA4 operating expenditure (\$ million real as at 31 December 2023)

	2020 (actual)	2021 (actual)	2022 (actual)	2023 (forecast)	2024 (forecast)	AA4 Total
Pipeline operation	13.56	16.50	17.41	14.77	14.83	77.07
Major expenditure jobs	0.03	0.30	0.50	0.24	0.60	1.66
Commercial operation	0.56	0.80	0.95	0.74	0.75	3.80
Regulatory costs	0.56	0.51	0.55	0.81	0.81	3.25
Corporate costs	4.80	4.94	7.91	3.19	3.19	24.03
Total	19.52	23.04	27.32	19.75	20.18	109.82

Source: GGP 2025-29 Access Arrangement Revision – Proposed Revised Access Arrangement Information, 1 January 2024, p. 10.

8. GGT forecast its AA5 operating expenditure using two approaches, the base-step-trend method and a specific forecast.
9. To determine forecasts using the base-step-trend method, GGT has used its actual operating expenditure from the most recent complete calendar year at the time of its proposal, being 2022.
10. GGT adjusted the base year operating expenditure to account for the forecast increase in capacity from the NGI in AA5. GGT also made this adjustment as corporate costs between the covered and uncovered GGP are allocated based on the ratio of respective contracted capacity and the NGI will increase the proportion of covered capacity in AA5.
11. GGT removed several costs from its 2022 base year as they are either non-recurring, will not exist in AA5 or have been specifically forecast, these include:
 - Payroll adjustment (\$0.59 million)
 - Demand side management (\$0.28 million)
 - APA operations and commercial management fees (\$2.39 million)
 - SoCI (\$0.76 million) (specifically forecast).
12. Table 5.2 shows the determination of GGT's proposed adjusted 2022 base year.

Table 5.2: GGT proposed adjusted 2022 base year (\$ million real as at 31 December 2023)

Base year	Amount
2022 operating expenditure base year	27.32
Add: increase due to NGI	0.21
2022 base year (including NGI)	27.53
<i>Less – specifically forecast</i>	
SoCI	(0.76)
<i>Less – non-recurring costs</i>	
Payroll adjustment	(0.59)
Demand side management	(0.28)
APA operations management fee	(1.06)
APA commercial management fee	(1.33)
Adjusted 2022 base year	23.51

Source: GGP 2025-29 Access Arrangement Revision – Proposal Overview, p. 87-88.

13. Table 5.3 shows GGT's proposed adjusted 2022 base year operating expenditure for the AA5 period according to the base-step-trend method combined with specific forecasts, broken down into the base-step-trend components.

Table 5.3: GGT proposed forecast operating expenditure for AA5 (\$ million real as at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Starting base year	23.51	23.51	23.51	23.51	23.51	117.57
<i>Add: Specific forecasts</i>						
SoCI cyber	0.69	0.75	0.76	0.76	0.76	3.71
Base year forecast	24.20	24.26	24.27	24.27	24.27	121.28
<i>Add: Step changes</i>						
Safeguard mechanism	0.55	0.70	0.72	0.73	0.77	3.48
AA6 regulatory proposal	0.00	0.18	0.28	0.85	0.28	1.59
Enterprise resource planning	0.47	0.43	0.38	0.33	0.32	1.93
<i>Add: Real labour cost escalation</i>						
Labour cost	0.30	0.40	0.50	0.60	0.71	2.51
Total forecast operating expenditure	25.52	25.98	26.16	26.79	26.35	130.80

Source: GGP 2025-29 Access Arrangement Revision – Proposal Overview, p. 85.

Submissions

14. There were no submissions for matters related to GGT's operating expenditure forecasts.

Draft decision

15. The ERA appointed Energy Market Consulting associates (EMCa) as its technical consultant to assist with reviewing GGT's governance, capital and operating expenditure proposals. The ERA has used EMCa's advice as part of its assessment of GGT's proposed operating expenditure.
16. The ERA's draft decision is set out below broken down by the base-step-trend components along with a specific forecast for SoCI expenditure.

Base year assessment

17. GGT has proposed to use its 2022 actual operating expenditure as the starting point to derive the efficient base year.
18. GGT's unadjusted 2022 base year value is \$27.32 million.
19. GGT has proposed four adjustments to the base year costs to remove non-recurrent costs to the value of \$3.27 million (see Table 5.2 on page 4).
20. The ERA has reviewed these four adjustments and consider it likely that the deductions are representative of the non-recurrent costs incurred, and that GGT has appropriately removed these costs from its base year operating expenditure.

Base year – NGI adjustment

21. GGT has made an adjustment to its base year expenditure to take into account the forecast increase in capacity from the NGI. GGT made the adjustment as shared costs between the covered and uncovered GGP are allocated based on the ratio of respective contracted capacity and the NGI will increase the proportion of covered capacity in the AA5 period.
22. GGT noted that only operating expenditure items allocated using this method have been updated in the 2022 base year. Table 5.4 below shows GGT's 2022 base year unadjusted and then adjusted for the NGI demand forecasts.

Table 5.4: GGT NGI demand adjustment to operating expenditure base year (\$ million real 2023)

Category	2022 - unadjusted	2022 – with NGI adjustment
Pipeline operations	17.41	17.50
Major expenditure jobs	0.50	0.50
Commercial operation	0.95	1.07
Regulatory costs	0.55	0.55
Corporate costs	7.91	7.91
Total	27.32	27.53

Source: GGP 2025-29 Access Arrangement Revision – Proposal Overview, p. 87.

23. The ERA considers it reasonable that there would be increased costs for servicing the additional customers provided through the NGI connection in some categories associated with the increase in capacity as a result of the NGI and the increased demand on the covered GGP.
24. The ERA determines that GGT's proposed increase in base year expenditure as a result of the NGI capacity increase meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Pipeline operations costs

25. GGT's pipeline operations costs are made up of two expenditure categories, APA operations costs and GGT operating costs. GGT incurred \$17.41 million for pipeline operations in its 2022 operating expenditure base year. This was split between the two categories with \$14.68 million for APA operations and \$2.73 million for GGT operating costs.
26. As noted above, GGT made a base year reduction for payroll adjustment that reduces the APA operations costs down to \$14.09 million. This is \$2.82 million more than the preceding five-year average (2017 to 2021) of \$11.27 million.
27. GGT noted that the main drivers for the increase in costs were:
 - Increased operations and maintenance costs as several maintenance activities occurred that were unforeseen and not planned at the time of GGT's AA4 access arrangement decision.
 - A review conducted in 2021 and 2022 that identified trends in equipment failures on the GGP including:
 - Paraburdoo – In the 12-month period there was a significant increase in reported compressor and Gas Engine Alternator (GEA) incidents and near misses. There were 12 GEA events for the past 12-month period and 14 compressor events compared to nine in 2021.
 - Ilgarari – There were 16 compressor events compared to 10 in 2021, eight GEA events compared to four in 2021 and six high suction pressure events compared to two in 2021.
 - Wiluna – Improvements were enacted in 2022 to mitigate systematic compressor failures due to varnishing and are expected to improve site performance. However, there have been three events since the improvement.
 - Higher contractor and contingent workers costs, outpacing Wage Price Index increases and the ERA's AA4 labour escalation factor. Due to the remoteness of maintenance activities along the GGP, contractors are required to stay onsite, which increases maintenance costs significantly.
28. EMCa requested additional information from GGT on the APA operations costs. GGT stated that the APA operations category are entirely contractor costs and have risen due to increased operations and maintenance activity along the GGP.
29. In explaining 2022 as a high-point relative to previous years, EMCa observed that several of the variances are as a result of activities that were unusually high in that year. However, the explanations do not provide evidence that these activities will be sustained at this higher level through AA5 and, accordingly, EMCa considers that GGT has not adequately justified the APA operations cost base.

30. EMCa noted that the arguments relating to increased real labour costs are valid and that a higher cost level does represent an increase that will be sustained.
31. The ERA considers that GGT has not adequately justified the total sustained increase in costs for the APA operations. While there was an increase in field operations due to increased operations and maintenance, and higher contractor costs, there has been no indication that these increases will continue into AA5 at the same levels. The ERA does consider that the higher labour costs are a valid explanation for part of the increase in costs and are likely to be sustained at the higher level going forward.
32. As a result, the ERA has determined that some level of increase is required into AA5. The ERA has determined that this increase should be 50 per cent of the 2022 increase of \$2.82 million (compared with the historical expenditure average). This results in a \$1.41 million reduction to the GGT proposed APA operations costs down to \$12.68 million.
33. For the \$2.73 million incurred for GGT operating costs, as noted above in paragraph 25, GGT made a base year reduction for the APA operations management fee (\$1.06 million) and APA commercial management fee (\$1.33 million) which reduces the GGT operating costs down to \$0.34 million.
34. The ERA considers this adjusted value for GGT operating costs is reasonable.
35. As a result, the ERA has determined that the base year pipeline operations costs (excluding the non-recurring costs) are \$13.02 million, made up of \$12.68 million for APA operations costs and \$0.34 million for GGT operating costs.

Base year – Major expenditure jobs

36. GGT has incurred an amount of \$0.50 million for major expenditure jobs in its 2022 operating expenditure base year. GGT's yearly average for major expenditure jobs incurred in the preceding five-year period (2017 to 2021) was \$0.19 million.
37. EMCa noted that it could not find any explanation for the increase in 2022 and in the absence of any explanation of the higher cost, GGT has not justified why this amount would remain at this higher level for AA5.
38. Without explanation of why the major expenditure jobs cost category has increased in 2022 or why it will remain at levels higher than the previous five-year average, the base year value for major expenditure jobs should be based on the historical average. This results in a reduction to the 2022 base year of \$0.30 million.
39. The ERA has determined that \$0.19 million of GGT's proposed base year expenditure for major expenditure jobs meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Corporate costs

40. GGT incurred an amount of \$7.91 million in corporate costs in its 2022 operating expenditure base year. These costs are as a result of an allocation from APA based on "asset revenue". GGT then removed \$0.76 million from this value for expenditure for SoCI, which it has separately forecast. The SoCI forecast expenditure is reviewed later in this attachment. Removing SoCI from the 2022 base year reduces the base year by \$7.15 million.

41. GGT stated that corporate costs have increased significantly since 2017 due to additional legislative obligations (for example, for SoCI), higher information technology expenditure, higher director and officer insurance costs and higher costs relating to additional headcount and restructures at APA.
42. GGT also noted that corporate costs have increased due to an increase to the allocation of corporate operating expenditure to GGP. The allocation of corporate operating expenditure is based on asset revenue and as GGP revenue as a proportion to APA revenue has increased over the years, the asset's share of the APA corporate cost has also increased.
43. The ERA notes that one of GGT's explanations for higher corporate costs includes SoCI costs that GGT has deducted from its 2022 base year. After removing the SoCI expenditure, the remaining corporate costs are still significantly higher than the preceding five-year average of \$5.29 million for 2017 to 2021.
44. EMCa sought additional information from GGT regarding the corporate costs allocated to GGT, including the total amount of APA corporate operating expenditure to be allocated to APA assets.
45. From GGT's response, the ERA notes that the APA corporate operating expenditure increased from ██████████ in 2020 to ██████████ in 2021 (an increase of \$10 million), before significantly increasing to ██████████ in 2022 (an increase of \$42.8 million). Based on the allocation methodology, this resulted in GGT corporate costs of \$4.2 million in 2020, \$4.4 million in 2021 and \$7.5 million in 2022.⁵
46. GGT has not provided sufficient information to justify the increase between years for corporate costs. While APA corporate operating expenditure has increased there has been no link made to any increase in value that has been provided to GGT.
47. GGT has provided only a high-level explanation for the increase in APA corporate operating expenditure, which the ERA considers does not provide adequate justification for the 53 per cent increase in APA corporate operating expenditure between 2021 and 2022.
48. The ERA considers that without sufficient information to make a more informed decision on the increase in APA corporate operating expenditure, the ERA has determined that historical average is the most accurate forecast for GGT's corporate costs in AA5.
49. Using information provided by GGT in response to an EMCa information request, the ERA has calculated a four-year average (2018 to 2021) for corporate costs to the value of \$5.29 million. This value does not include SoCI expenditure, which is forecast specifically later in this attachment.
50. As a result, the ERA has determined that \$5.29 million of GGT's proposed base year expenditure for corporate costs meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Commercial operations

51. GGT's proposed adjusted 2022 figure for commercial operations is \$0.79 million, after removing \$0.28 million for demand side management. This amount includes

⁵ All amounts in nominal dollars.

\$0.12 million added by GGT as a result of the additional customers and higher demands that it expects to service making use of the additional capacity provided by the NGI.

52. GGT's yearly average for commercial operations incurred in the previous five-year period (2017 to 2021) was \$0.76 million.
53. The ERA considers that there is likely to be some additional commercial operations cost to the covered pipeline for servicing the additional customers provided through the NGI connection.
54. The ERA has determined that GGT's proposed base year expenditure for commercial operations of \$0.79 million meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Regulatory costs

55. GGT has incurred an amount of \$0.55 million for regulatory costs in its 2022 operating expenditure base year. GGT's yearly average for regulatory costs incurred in the previous five-year period (2017 to 2021) was \$0.51 million.
56. The ERA notes that GGT has also included a proposed step change for additional regulatory costs as part of its AA5 operating expenditure proposal, which is assessed separately in this attachment.
57. Considering only the 2022 base year regulatory costs and not the proposed step change, the ERA has determined that GGT's proposed base year expenditure for regulatory costs of \$0.55 million meets the criteria under rule 91 of the NGR to be included as operating expenditure in the AA5 period.

Specifically forecast expenditure

SoCI expenditure

58. APA engaged consultant EY to conduct a gap analysis of APA's ability to meet the revised obligations under the *Security of Critical Infrastructure Act 2018*, identify uplift needs and assist in the design of an appropriate suite of security controls.
59. APA is working to achieve a defined maturity level as set out in the Australian Energy Sector Cyber Security Framework, amending personnel and supply chain standards and procedures from a security perspective. This includes the introduction of an AusCheck screening process for new and ongoing critical workers, employees or contractors, and supplier security risk assessments as well as identifying and remediating material risks.
60. EMCa noted that the SoCI program commenced in 2022/23 and will continue over the AA5 period, forecast to cost \$3.71 million in total. This provides a similar, though slightly less, aggregate outcome over AA5 as retaining the amount in the base year would have resulted in \$3.78 million over the AA5 period.
61. The ERA considers that SoCI expenditure is required expenditure for GGT under the SoCI Act and that the specifically forecast expenditure value for the AA5 period would be an efficient level of expenditure.

62. The ERA has determined that \$3.71 million of GGT’s proposed expenditure for SoCI meets the criteria under rule 91 of the NGR to be included as operating expenditure in the AA5 period.

Step changes

63. GGT has forecast three step changes to operating expenditure for the AA5 period as outlined in Table 5.5.

Table 5.5: GGT proposed operating expenditure step changes for AA5 (\$ million real at 31 December 2023)

Step changes	2025	2026	2027	2028	2029	Total
Safeguard mechanism initiatives	0.55	0.70	0.72	0.73	0.77	3.48
AA6 regulatory proposal	0.00	0.18	0.28	0.85	0.28	1.59
Enterprise resource planning	0.47	0.43	0.38	0.33	0.32	1.93
Total	1.02	1.31	1.39	1.91	1.37	7.00

Source: GGP 2025-29 Access Arrangement Revision – Proposal Overview, p. 88.

Safeguard mechanism initiatives

64. The Safeguard Mechanism legislates limits – known as baselines – on the greenhouse gas emission of facilities subject to the Safeguard Mechanism. These baselines will decline, predictably and gradually, on a trajectory consistent with achieving Australia’s emission reduction targets of 43 per cent below 2005 levels by 2030 and net zero by 2050.
65. Baselines will decline from 1 July 2023. The decline rate will be set at 4.9 per cent each year to 2030.
66. The Safeguard Mechanism applies to industrial facilities emitting more than 100,000 tonnes of carbon dioxide equivalent (CO₂-e) per year, including the GGP.
67. GGT has modelled four scenarios based on capital improvements to the GGP to reduce emissions. The modelling was undertaken to identify the most prudent and efficient expenditure between capital improvement costs and the costs of purchasing Australian Carbon Credit Units.
68. From its modelling, GGT has forecast a total of \$3.48 million in operating expenditure in the AA5 period for the Safeguard Mechanism. The \$3.48 million represents the share attributed to the covered portion of the GGP based on the ration of TJ/day of covered contracted capacity, as outlined in GGT’s cost allocation method. The total value of the Safeguard Mechanism expenditure for the covered and uncovered GGP is \$5.4 million over the AA5 period.
69. EMCa noted that the Safeguard Mechanism is a new obligation and GGT has factored in other initiatives to recuse the quantum of carbon credits to purchase. EMCa considered that the step change and amount proposed by GGT is reasonable.

70. The ERA considers that the proposed expenditure for the safeguard mechanism would be efficient operating expenditure and as a result determines that the \$3.48 million proposed operating expenditure by GGT for Safeguard Mechanism initiatives meets the criteria under rule 91 of the NGR.

AA6 regulatory proposal preparation costs

71. GGT has proposed a step change to account for its forecast costs for preparing the 2030 to 2034 access arrangement (AA6) regulatory proposal. GGT has included the step change as they consider the AA5 proposal process was in its infancy in 2022, and the costs of preparing an access arrangement revision are not adequately covered in the base year, requiring a step change.
72. GGT submitted that the step change was also required for an increase in costs for GGT to prepare for an access arrangement revision due to additional legislative requirements, and ERA expectations, particularly around stakeholder engagement.
73. GGT provided a bottom-up expenditure forecast which is based on what it claims are its actual and estimated costs for its current preparation of the AA5 access arrangement, including internal headcount charges, consultancy fees, project management fees and stakeholder management resources. GGT's bottom-up regulatory step change amounts to an average of \$0.32 million per year.
74. EMCa considered that the regulatory expenditure information that GGT has provided does not support its contention that its regulatory expenditure in its base year was markedly below previous year averages. In proposing a step change of \$1.59 million, GGT has not made a base year adjustment to remove the expenditure of \$0.55 million that it did incur, meaning that its proposed step change would be additional to the \$2.76 million (\$0.55 million times five years) that is included on account of being retained within its base year operating expenditure.
75. EMCa considered that GGT has not provided evidence to support its contention that its bottom-up forecast of \$1.59 million is required, either in addition to the amount included in its base year or instead of the amount included in its base year. GGT has not provided costing specific to the additional obligations that it refers to in its regulatory proposal.
76. EMCa noted that it would expect there to be a cyclical pattern to regulatory expenditure and would expect GGT to incur higher costs on average than it did in its 2022 base year, which is the third year of its regulatory cycle.
77. EMCa noted that, in the absence of satisfactory evidence from GGT, it would be reasonable to allow a step change that would provide a 21 per cent higher allowance for regulatory costs, to account for the cyclical nature of regulatory expenditure. EMCa derived this figure from examination of the cyclical pattern of GGT's proposed bottom-up expenditure and from the cyclical variation evident in its current period expenditure. This provides for an allowance that is also greater than GGT's average incurred costs from 2018 to 2021 and can also be assumed to provide for the increased obligations that GGT has referred to.
78. Taking these factors into account would provide for a step change of \$0.59 million. This represents 37 per cent of the \$1.59 million step change that GGT proposed.
79. The ERA considers that a step change is required to provide an adequate allowance to GGT to meet its regulatory requirements in the AA5 period. The ERA does not consider

that GGT has adequately justified its proposed step change of \$1.59 million on top of its base year expenditure.

80. The ERA has determined that \$0.59 million of GGT's proposed step change expenditure for regulatory costs meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Enterprise resource planning upgrade

81. GGT noted that APA is undertaking a transformation of the Enterprise Resource Planning (ERP) landscape to replace the ageing legacy system. The legacy system lacks process and data maturity and is incapable of scaling to meet needs and address operational risks.
82. The ERP program seeks to deliver new systems, data, processes and operating models for APA's finance, procurement and functions. This includes integration with key existing systems such as asset management (maximo) and customer billing. The program will also aim to deliver access to key ERP business data via APA's data warehouse solutions for advanced analytics and reporting purposes.
83. EMCa reviewed GGT's calculation of its proposed step change, including a preliminary draft APA business case that was provided by GGT. EMCa observed that the preliminary draft business case was incomplete and included 'placeholder' instances where it appeared information was yet to be added. EMCa considered that it was unlikely that a project of such magnitude would yet have been approved on the basis of preliminary information such as was provided.
84. In addition, EMCa observed that most of the operating expenditure for APA's preferred option was also present in the 'business as usual' base case, and therefore would not be additional. EMCa noted that any net additional operating expenditure incurred by APA would therefore be considerably less than GGT had proposed, before accounting for any operating expenditure efficiency benefits that might be unlocked.
85. The ERA considers that GGT has not justified the proposed step change for its ERP expenditure. GGT has stated that this is a major project delivering new systems, data, processes and will integrate with other key existing systems however as noted by EMCa, the business case is in a preliminary state with gaps in the information.
86. The ERA determines that based on the lack of information and high possibility that the project will change in value and timelines when the business case is firmed up, that the proposed step change of \$1.93 million for the enterprise resource planning project does not satisfy the operating expenditure criteria of rule 91 of the NGR for inclusion in the AA5 operating expenditure.

Cost escalation

87. The ERA considers it reasonable to include a cost escalation factor in GGT's operating expenditure forecast to account for increases in labour and materials costs above inflation in the AA5 period.
88. GGT stated that it used the ERA's preferred method to determine labour cost escalation, as outlined in the GGP AA4 final decision. However, GGT actually used an adjusted version of the ERA's preferred forecasting method to calculate its real labour cost forecast.

89. GGT based its forecast on a four-year average of Western Australian Treasury Consumer Price Index (CPI) and Wage Price Index (WPI) forecasts from 2023/24 to 2026/27, rather than the ERA's preferred five-year average. A five-year average for GGT would include 2022/23, but GGT does not consider the value in 2022/23 to be representative of expected CPI growth in the AA5 period.
90. As a result, GGT has determined a value of 0.67 per cent per year as the labour cost escalator to be applied to 54 per cent of the base year operating expenditure. Using this determined escalator, GGT has applied real cost escalation for labour costs in its AA5 operating expenditure submission to a value of \$2.51 million over the period.
91. GGT has not included an industry premium in its forecast. The ERA accepts GGT not including an industry premium in its real labour cost escalation calculation.
92. The ERA has reviewed GGT's real labour cost escalation calculation and has updated it with the 2027/28 forward estimate for WPI and CPI from the May 2024 State Budget to make the forecast a five-year average, in line with the ERA's preferred method.
93. To calculate the best forecast of real labour escalation, the ERA has used the average of recent and forecast Western Australian Treasury WPI growth and CPI growth. This results in a real labour escalation factor of 0.58 per cent as set out below in Table 5.6.⁶

Table 5.6: Western Australian WPI and CPI included in calculating the real annual labour escalation for the AA5 period (%)

	2023/24 estimated actual	2024/25 budget year	2025/26 forward estimate	2026/27 forward estimate	2027/28 forward estimate	Average
Annual average WPI	4.25	3.75	3.50	3.00	3.00	3.50
Annual average CPI	4.00	3.00	2.50	2.50	2.50	2.90

Source: ERA analysis.

94. Using the 0.58 per cent real labour cost escalation value, the included value for labour escalation in the AA5 period is \$1.94 million.

Draft decision amendments summary

95. As outlined above, the ERA has determined that operating expenditure for the AA5 period is \$110.90 million as set out in Table 5.7.

⁶ Derived by using the Fisher equation, not via subtraction.

Table 5.7: ERA draft decision forecast operating expenditure for AA5 (\$ million real as at 31 December 2023)

Category	2025	2026	2027	2028	2029	Total
Pipeline operation	13.33	13.41	13.49	13.56	13.64	67.43
Major expenditure jobs	0.50	0.50	0.50	0.50	0.50	2.51
Commercial operation	1.35	1.50	1.52	1.53	1.57	7.46
Regulatory costs	0.55	0.62	0.66	0.87	0.66	3.36
Corporate costs	5.97	6.04	6.05	6.05	6.05	30.15
Total	21.71	22.07	22.21	22.51	22.41	110.90

Source: ERA analysis.

Required Amendment

- 5.1 GGT must amend its access arrangement information to revise its AA5 operating expenditure to \$110.90 million (\$ million real as at 31 December 2023), consistent with Table 5.7 of Draft Decision Attachment 5.

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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.⁷

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

71 Assessment of compliance

- (1) In determining whether capital or operating expenditure is efficient and complies with other criteria prescribed by these rules, the [ERA] may, without embarking on a detailed investigation, infer compliance from the operation of an incentive mechanism or on any other basis the [ERA] considers appropriate.
- (2) The [ERA] must, however, consider, and give appropriate weight to, submissions and comments received when the question whether a relevant access arrangement proposal should be approved is submitted for public consultation.

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

⁷ 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).

- (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 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.

...

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).

...

91 Criteria governing operating expenditure

- (1) Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services in a manner consistent with the achievement of the national gas objective.
- (2) The forecast of required operating expenditure of a pipeline service provider that is included in the access arrangement must be for expenditure that is allocated between:
 - (a) reference services;
 - (b) other services provided by means of the scheme pipeline; and
 - (c) other services provided by means of non-scheme parts (if any) of the pipeline, in accordance with rule 93.

...

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.