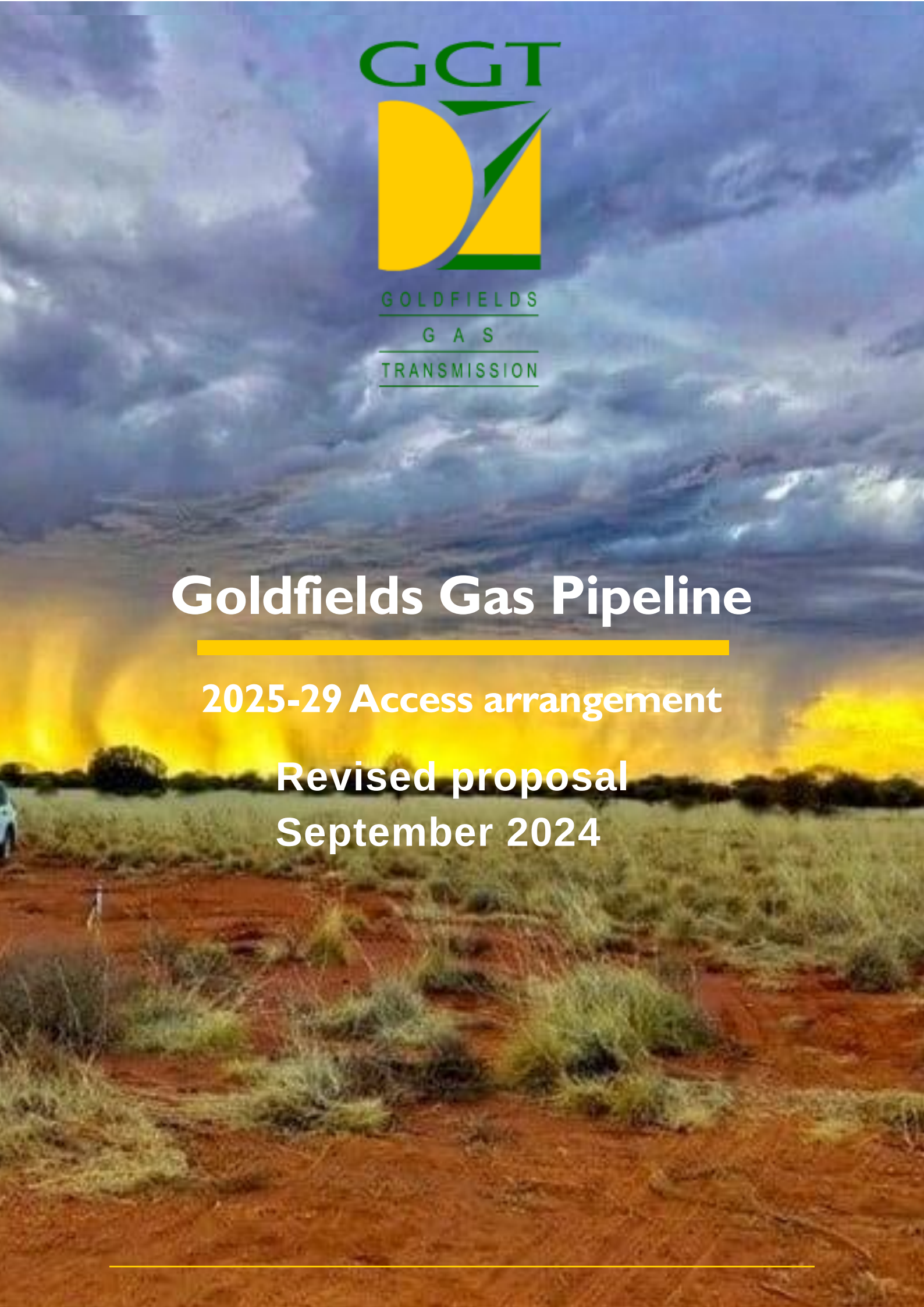


Goldfields Gas Pipeline

2025-29 Access arrangement

Revised proposal
September 2024

ACKNOWLEDGEMENT OF COUNTRY

At Goldfields Gas Transmission, we acknowledge the Traditional Owners and Custodians of country on which we operate.

We acknowledge their connections to land, sea, and community.

We pay our respects to Elders past and present and commit to working in a fair and ethical manner that respect First Nations peoples' rights and interests.

Contents

FOREWORD

We are pleased to submit our revised proposal to the Economic Regulation Authority (ERA) for the Goldfields Gas Pipeline for the five-year period from 1 January 2025 to 31 December 2029.

We are focused on ensuring the Goldfields Gas Pipeline is a sustainable operation and can continue to deliver the reliable services that our valued Western Australian customers depend on every day.

We know that the role of gas within the energy system will evolve as we work towards emissions reduction. Gas will continue to be indispensable for costly-to-electrify energy applications. For this reason, many of our customers acknowledge the critical role gas will play in their own decarbonisation journeys.

Our customers have told us that reliability and security of supply is paramount. Furthermore, customers underscored the potential safety concerns and the substantial financial consequences associated with any interruptions to their operations and production.

Where possible, this revised proposal aligns with the ERA's draft decision. In the following pages, we present our plans for the 2025-29 regulatory period, outlining key strategies and investment plans that will maintain safe, secure, and reliable service delivery while keeping costs in check. We also explain the areas where we have taken a different path from the ERA's draft decision.

We understand the impact increasing costs have on our customers, and the need to keep tariffs as low as possible. Australia's current high interest rate and inflation environment has impacted the revenue and tariff outcomes for the covered Goldfields Gas Pipeline. Acknowledging the high cost environment, our five-year plan is to invest in only what needs to be done to maintain the safety, reliability, and security of services.

We would also like to thank the ERA staff and Board for their ongoing engagement – both prior and following the lodgement of our proposal – as we have worked through several complex issues. We look forward to continuing open and transparent engagement to resolve these remaining matters.

We invite our customers to read this information and provide your feedback to the ERA via their website at www.erawa.com.au or to us directly at:

Email: ggpaccess@apa.com.au

Thank you

Alex Curran
General Manager Goldfields Gas Transmission

ABOUT THIS DOCUMENT

Our revised proposal presents the proposed revisions to the Goldfields Gas Pipeline (GGP) access arrangement following the ERA's draft decision. The proposed revisions and supporting material set out our plans to enable GGP to continue to provide reliable, safe, and secure pipeline services to customers.

This revised proposal should be read in conjunction with GGT's initial proposal which detailed explanation of the proposed revisions to the access arrangement, and our engagement with stakeholders.

The revised proposal for GGP sets out where we agree with the ERA's draft decision and have accepted changes to the access arrangement. On matters where we do not agree with the ERA draft decision, we have provided further information to address concerns raised by the ERA.

All forecast and past expenditure values are expressed in real dollars as at 31 December 2023 unless otherwise stated. All revenue amounts are expressed in nominal dollars unless otherwise stated.

OUR REVISED PROPOSAL

The Goldfields Gas Pipeline (GGP) 2025-29 access arrangement proposal presents our five-year plan for the GGP. These plans have been formed with feedback gained from ongoing engagement with our customers. Our customers tell us that a safe and reliable gas transportation service is paramount to their needs. While usage of gas is expected to evolve in the future, we believe it will continue to play a crucial role for GGP customers, many who are working towards decarbonising their operations and facilities.

We recognise our customers operate in a high cost and competitive environment. Our plans invest in only what is needed to provide value to our customers during the 2025-29 access arrangement period.

The 2025-29 access arrangement proposal enables us to continue to provide what our customers demand – a reliable, safe, and secure gas transportation services. In the following pages, we present our plans, outlining key strategies and investment plans that will maintain safe, secure, and reliable service delivery while keeping costs in check.

Reference service

In December 2022, we proposed to specify the 'firm transportation service' as the single reference service on the GGP. The ERA accepted GGT's proposal.

The GGP 2025-29 access arrangement proposal results in the tariff for the firm transportation service for covered GGP. The reference service tariff serves as an important benchmark for commercial negotiations with customers.

Revenue and reference service tariffs

Proposed total revenue for the 2025-29 period is forecast to be $353.9 million (real $2023). This is an increase of $128 million (57 per cent) in real terms compared to the approved total revenue for 2020-24. The increase in total revenue requirements is mostly due to the higher interest rate and inflation environment, along with higher operating and capital expenditure requirements.

The total revenue is used to calculate the reference service tariff. The reference service tariff is structured into three parts and the changes from the 2024 regulator approved tariff to the proposed 2025 tariff shows significant increases.

ERA approved 2024 tariff and GGT revised proposed 2025 tariff (real $2023)

Component	**Unit**	**2024** (ERA approved)	**2025** (GGT revised)	**Variance**
Toll	$/GJ MDQ	0.127527	0.184769	45%
Capacity reservation	$/GJ MDQ km	0.000773	0.001297	68%
Throughput	$/GJ km	0.000208	0.000344	65%

ERA approved 2024 tariff and GGT initial proposed 2025 tariff ($nominal)

Component	Unit	2024 (ERA approved)	2025 (GGT revised)	Variance
Toll	$/GJ MDQ	0131672	0.195086	48%
Capacity reservation	$/GJ MDQ km	0.000798	0.001369	72%
Throughput	$/GJ km	0.000215	0.000363	69%

The increase in revenue requirements directly impacts the reference tariff as shown in the above tables.

Demand forecasts

The proposed demand forecasts for covered GGP include forecasts from Yarraloola receipt point and the receipt point from the recently commissioned Northern Goldfields Interconnect. The APA-owned NGI is a separate pipeline that connects into the GGP. Clause 7.2(b) of the GGP Access Arrangement clause specifies that expanded capacity is to be treated as covered capacity. We have assumed that the forecast capacity flowing from NGI to GGP is to be treated as covered capacity. This has increased the demand forecasts for covered GGP in 2025-29 compared to forecasts 2020-24.

As requested by the ERA, we have updated demand forecasts with the latest information. This has resulted in small decline in forecast contracted capacity and throughput. Further information is provided in section 3 of this revised proposal overview.

Operating expenditure

To ensure the ongoing provision of secure and dependable services to our customers, we propose operating expenditure of $134.8 million for the 2025-29 period. This is $3.5 million (2.7%) higher than actual (2020-23) and forecast (2024) operating expenditure in the current period.

It is $25 million (23%) higher than the $109 million approved by ERA in the draft decision and $4 million higher than GGT's initial proposal. GGT's forecast has mainly increased due to the reclassification of some expenditure from capex to opex. The remaining increase is from updating the base year used for the forecast from 2022 to 2023.

The operating expenditure is for activities related to maintaining an ageing asset, increased expenditure on Information Technology, and a step up in cost related to new Security of Critical Infrastructure legislation.

Capital expenditure

GGT's revised capital expenditure proposal ensures that GGT will continue to provide a safe, reliable, and secure supply of energy to our larger mining and smaller end-use customers. Our initial proposal included $70.2 million of capex for AA4 (2020-2024) and $62.9 million for AA5 (2025-29). When benchmarked against other large Australian pipelines business our capex is relatively low.

The ERA draft decision did not make any changes to our program on the basis of prudency, efficiency or whether any project or program was justified. However, the ERA raised several concerns about cost allocation and did not accept the inclusion of shared capex allocated to the GGP.

Where possible we have accepted the ERA's draft decision. However, we do not agree with all changes and in these cases provide additional information to address the concerns raised and to update elements of our proposal. This has resulted in a revised capital expenditure of $68.0 million for AA4 and $56.3 million for AA5, slightly lower than our initial proposal.

Depreciation & asset lives

GGT proposed to change the approach to calculating the asset lives by capping asset lives to the weighted average remaining life of the pipeline and laterals class.

The ERA draft decision accepted GGT's proposal to shorten the lives of assets to the weighted average remaining life of pipeline and lateral asset classes. ERA considered that capping asset lives is reasonable and supports efficient outcomes with a small impact on customers in AA5.

Tariff variation – cost pass through events

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.

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

We have accepted the ERA's draft decision regarding cost pass through events. Our revised proposal includes additional cost pass through events for natural disasters, carbon cost, and terrorism in addition to the incumbent change in law, and tax changes. We have amended the materiality threshold and timelines required by the ERA in the draft decision.

Access and queuing

The access arrangement sets out procedures for customers seeking access to services provided by the covered GGP. Our initial proposal sought changes to streamline and simplify the provisions and ensure that they are fit for purpose for customers and better reflect a commercial environment.

The ERA considered that GGT's amended queuing requirements improve the readability and understanding of the requirements for access to services and the requirements for queuing when access to services cannot be provided. The amended queuing requirements also better align with the queuing requirements set out in the National Gas Rules.

Benefits to customers of the proposal

Our access arrangement proposal is consistent with the expenditure that a prudent organisation acting efficiently would incur. The benefits to customers are:

Affordability
Keeping the reference tariff as low as possible while maintaining safety, security, and reliability of the GGP.

Safety and integrity
Asset management is aligned to good industry practice to minimise risk to as low as reasonably practicable and provide safe, reliable, and secure services

Orderly transition
Starting to transition GGP tariffs early (to recoup efficient investment) to prevent future price shocks as energy sector transitions to lower carbon energy sources.

Security critical infrastructure
Maintaining system security by safeguarding critical infrastructure against threats in line with obligations under Security of Critical Infrastructure framework. We have done this in an efficient and proportionate way.

Prudent
APA operations align with AS 2885 – The Standard for Gas and Liquid Petroleum Pipelines. APA seeks to reduce risk to as low as reasonably practicable in a manner that balances cost and risk. We have carefully considered regulatory obligations and good industry practice in developing the access arrangement proposal. The proposal will allow GGP to operate in a safe way and ensure integrity and reliability of services for gas customers and consumers. Forecast capital and operating expenditure is underpinned by the principle of minimising risk to as low are reasonably practicable in line with good industry practice. The proposed expenditure is of a nature that a prudent service provider would incur.

Efficient
As part of APA Group, GGP benefits from economies of scale and scope compared to having to incur costs on a stand-alone basis. APA is ASX listed and is subject to market scrutiny and greater discipline to minimise costs. This provides assurance that costs are efficient. Procurement of work for GGP will be done in alignment with APA procurement policy which will deliver best value for customers.

Revised proposal documents

GGT has submitted a set of documents that form the GGP access arrangement revision proposal. The full suite of information forming the revised proposal are listed below:

No.	Document Name	Public or Confidential
1	GGP AA5 Revised proposal overview - Summary for customers	Public
2	GGP AA5 Revised proposal overview	Public
3	GGP AA5 Proposed revised Access Arrangement (tracked) (pdf version)	Public
4	GGP AA5 Proposed revised Access Arrangement (tracked) (word version)	Public
5	GGP AA5 Proposed revised Access Arrangement (clean) (pdf version)	Public
6	GGP AA5 Proposed revised Access Arrangement (clean) (word version)	Public
7	GGP AA5 Access Arrangement Information - Public	Public
8	GGP AA5 Tariff model - Public	Public
9	GGP AA5 Tariff model - Confidential	Confidential
10	GGP AA5 Attachment 3.1 - Demand forecast report - Public	Public
11	GGP AA5 Attachment 3.2 - Demand forecast supplementary information - Confidential	Confidential
12	GGP AA5 Attachment 3.3 - Demand forecast model - revised - Public	Public
13	GGP AA5 Attachment 3.3 - Demand forecast model - revised - Confidential	Confidential
14	GGP-AA5 Attachment 3.4 - Cost allocation model - revised - Confidential	Confidential
15	GGP AA5 Attachment 4.1 - Capex coverage allocation model - revised - Confidential	Confidential
16	GGP AA5 Attachment 4.2 - ITOT Project delivery - supplementary information - Confidential	Confidential
17	GGP AA5 Attachment 5.1 - Opex model - revised - Public	Public
18	GGP AA5 Attachment 5.1 - Opex model - revised - Confidential	Confidential
19	Claim for confidentiality	Public
20	GGP AA5 Document index	Public

1. INTRODUCTION

1.1 ERA draft decision

On 21 December 2023, GGT submitted proposed revisions to the GGP access arrangement for the period from 1 January 2025 to 31 December 2029 (2025-29 or AA5). We refer to this as the 'initial proposal'. The ERA reviewed our initial proposal against the National Gas Rules (NGR) and published the draft decision on 25 July 2024.

The ERA approved parts of GGT's initial proposal but did not accept proposed access arrangement revision as a whole.

In accordance with Rule 60 of the National Gas Rules we have taken the opportunity to submit a revised proposal in response to the ERA's draft decision on GGT's proposed 2025-29 access arrangement (initial proposal).

We have reviewed the ERA draft decision and considered what matters we agree on and accept; and what matters we do not agree and have not accepted. Where we do not agree with the ERA's draft decision, we have provided further information to support our position.

Our revised proposal sets out proposed amendments and seeks to address matters raised by the ERA in its draft decision.

1.2 GGT response

GGT has accepted the draft decision where appropriate. A summary of ERA draft decisions and GGT response is presented in Table 1.

Summary of the ERA's draft decision and our response to presented in below table.

Table 1 GGT response to ERA draft decision

Access Arrangement

ERA draft decision		GGT response
1.1	GGT should amend the pipeline description to include kilometre reference points for each receipt and delivery point on the pipeline.	Not accepted
1.2	GGT must correct the review submission date in Section 1.7 of the proposed access arrangement from 1 January 2028 to 1 January 2029.	Accepted

Demand Forecast

ERA draft decision		GGT response
2.1	GGT must publish the minimum, maximum and average demand on the covered GGP, including actuals and forecasts for AA4, for each receipt or delivery point.	Accepted
2.2	GGT must publish user numbers on the covered GGP, including actuals and forecasts for AA4, for each receipt or delivery point.	Accepted

ERA draft decision		GGT response
2.3	GGT must amend the terms “maximum capacity” and “average capacity” in the demand model and the demand forecast report to “maximum contracted capacity” and “average contracted capacity”.	Accepted
2.4	GGT must amend the capacity and throughput forecasts to reflect the ERA’s forecasts in Table 2.5 of Draft Decision Attachment 2.	Not accepted

Revenue and tariffs

ERA draft decision		GGT response
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.	Not accepted
3.2	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.	Not accepted
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.	Accepted
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”.	Accepted
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).	Accepted
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.	Accepted
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.	Accepted
3.8	GGT must delete the “regulatory change event” from Section 4.5.2(c) of the proposed access arrangement.	Accepted
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.	Accepted

Regulated asset base

ERA draft decision		GGT response
4.1	GGT must amend its access arrangement information to revise its AA4 forecast capital expenditure to $32.3 million ($ real as at 31 December 2023), consistent with Table 4.6 of Draft Decision Attachment 4.	Not accepted
4.2	GGT should update its forecast AA4 capital costs with the latest labour cost escalation update available and provide the ability for the ERA to update this its final decision model.	Not accepted
4.3	GGT must amend its access arrangement information to revise its AA5 forecast capital expenditure to $44.3 million ($ real as at 31 December 2023), consistent with Table 4.11 of Draft Decision Attachment 4.	Not accepted
4.4	GGT should update its AA5 capital costs with the latest labour cost escalation update available and provide the ability for the ERA to update this in its final decision model.	Not accepted

Operating expenditure

ERA draft decision		GGT response
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.	Not accepted

Depreciation

ERA draft decision		GGT response
6.1	GGT must amend the forecast depreciation of the capital base for AA5 to $69.6 million (real as at 31 December 2023). The yearly values for each year of the access arrangement period are set out in Table 6.5 of Draft Decision Attachment 6.	Not accepted

Rate of return

ERA draft decision		GGT response
7.1	Subject to the nomination of a final averaging period, GGT must update its rate of return to be 7.46 per cent (vanilla nominal after-tax).	Accepted
7.2	GGT must amend the estimated cost of corporate income tax in accordance with Table 7.11 of Draft Decision Attachment 7.	Not accepted

Queuing

ERA draft decision		GGT response
8.1	GGT must amend Section 5.2 of the access and queuing requirements to add a new provision to confirm that if the existing user responds to the service provider's request for continuation of service information to confirm that it does not intend to extend its gas transportation agreement, the service provider may treat the user's capacity as spare capacity at the expiry of the user's agreement.	Accepted
8.2	GGT must amend Section 5.5.1(b) of the access and queuing requirements so that the requirement to meet any prudential requirements is limited to those that are reasonably necessary to lodge a registration of interest. To assist with clarity, GGT should provide examples of the types of prudential requirements that may be specified.	Accepted
8.3	GGT must include a provision in Section 5.5 of the access and queuing requirements to confirm what happens to a registration of interest after 12 months from receipt of the registration of interest by the service provider.	Accepted
8.4	GGT must amend Section 5.6 of the access and queuing requirements to change the heading from "Service Provider can provide service with Spare Capacity" to "Spare Capacity", which better reflects the provisions of this section.	Accepted
8.5	GGT must correct the drafting error in Section 5.7(a) of the access and queuing requirements so that the drafting reads "… 30 Business Days after the date specified in the Spare Capacity Notice (access request date)".	Accepted

ERA draft decision		GGT response
8.6	GGT must amend the access and queuing requirements to confirm the information required when notifying prospective users (under Section 5.8.3(d)) as to whether they were allocated any spare capacity in an auction, and the regulator (under Section 5.8.3(e) of the outcomes of a Spare Capacity Notice and Auction for Spare Capacity. As a minimum, the information required must be such as to enable a prospective user to determine the prospective user's position in the queue, the order of which was determined by prioritising the auction bids based on the criteria set out in Section 5.8.3(b).	Accepted
8.7	GGT must correct the drafting error in Section 5.8.1(d)(iii) of the access and queuing requirements to remove the words “For example, terms that … compared to standard Terms & Conditions” (these words should form part of the new drafting in Section 5.8.1e)). GGT must also correct the drafting error in Section 5.8.3(e) to refer to the “Spare Capacity Notice” (not “Notice of Spare Capacity”).	Accepted
8.8	GGT must correct the drafting error in Section 5.9(b) of the access and queuing requirements to change the reference to “Capacity Queue” to “Capacity Deposit”.	Accepted
8.9	GGT must delete proposed Section 5.10 of the access and queuing requirements, unless GGT can confirm that this section is only relevant in relation to an access request made under Section 5.1 and access offer made under Section 5.3.2.	Accepted

Terms and conditions

ERA draft decision		GGT response
9.1	GGT must amended the definition of “receipt point” in Schedule T of the proposed access arrangement to match the amended definition of “receipt point” in Schedule C of the proposed access arrangement (noting that there is a drafting/formatting error in the amended definition for “receipt point” in Schedule C that needs to be addressed).	Accepted
9.2	GGT should consider amending the structure of the proposed access arrangement to incorporate the definitions that apply to the reference service terms and conditions into those terms and conditions (i.e. existing Schedule T (C1 Definitions and Interpretation) should form part of Schedule D (Terms and Conditions applying to the Firm Transportation Service).	Not accepted

2. REVENUE & TARIFFS

2.1 Overview

Total revenue needed to maintain a reliable and secure pipeline for the 2025-29 period is presented in this section. GGT revised proposed total revenue for the 2025-29 period is $353.9 million (real $2023). This is a small uplift compared to our initial proposal.

2.2 GGT initial proposal

GGT's initial proposal, forecast total revenue for the 2025-29 period (AA5) was $348.6 million (real $2023) ($389m $nominal). This represented an increase of $123 million (54 per cent) in real terms compared to the approved total revenue for 2020-24 (AA4).

The increases in proposed total building block revenue reflects the high interest rate and high inflation environment together with increased investment by GGT to meet reliability, safety, and security requirements.

The total revenue is used to calculate the reference service tariff and the increase in forecast revenue for covered GGP has increased the reference service tariff. The ERA approved reference service tariff is the 'firm transportation service'. GGT proposed to retain the three-part reference tariff structure for the reference service consisting of the toll, capacity reservation and throughput components.

Toll

Price per GJ of contracted capacity (MDQ) referred to as the toll component

Capacity reservation

Price per GJ MDQ kilometre referred to as the capacity reservation component

Throughput

Price per GJ kilometre referred to as the throughput component

This three-part structure reflects the underlying capital and operating cost structures used to provide pipeline services to individual customers at different locations along the GGP.

To calculate each component of the reference tariff, the building block revenue is allocated to each tariff component in a way the reflects the underlying costs. The 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; and
- 16.5 per cent is allocated to the throughput component.

The ERA approved reference service tariff for 2024 and GGT's initially proposed 2025 tariff are shown below. The tariffs are shown in real and nominal terms.

Table 2-1 2024 ERA approved 2024 tariff and GGT initial proposed 2025 tariff (real $2023)

Component	Unit	2024 (ERA approved)	2025 (Proposed)	Variance
Toll	$/GJ MDQ	0.127527	0.184769	45%
Capacity reservation	$/GJ MDQ km	0.000773	0.001297	68%
Throughput	$/GJ km	0.000208	0.000344	65%

Table 2-2 2024 ERA approved 2024 tariff and GGT initial proposed 2025 tariff ($nominal)

Component	Unit	2024 (ERA approved)	2025 (Proposed)	Variance
Toll	$/GJ MDQ	0131672	0.195086	48%
Capacity reservation	$/GJ MDQ km	0.000798	0.001369	72%
Throughput	$/GJ km	0.000215	0.000363	69%

As noted in our initial proposal higher interest rate and inflation are currently materially higher than those in the 2020-24 period and have contributed to higher forecast revenue and tariffs for 2025-29.

We noted in the proposal overview for the initial proposal that if interest rates and inflation had remained more in line with historical levels, the changes in the tariff components would have been a 6 per cent decrease in the toll charge and increases of 20 per cent in the capacity reservation charge and 17 per cent in the throughput charge.

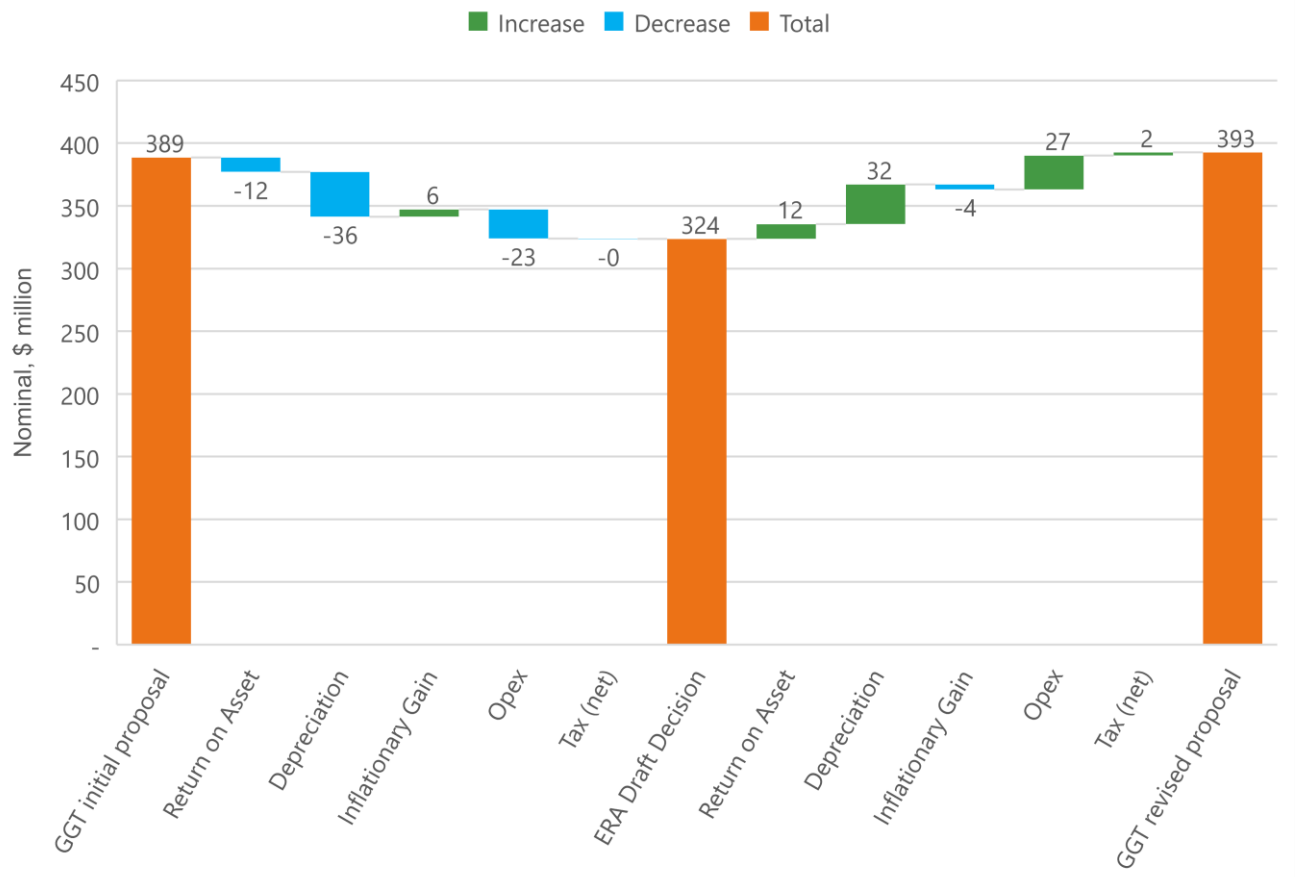
2.3 ERA draft decision

The ERA draft decision did not accept our proposed revenue nor the increase in the proposed reference service tariffs.

2.3.1 Total revenue

The ERA draft decision total revenue block was $323.6 million ($nominal) which was $65 million (17%) lower than GGT's initial proposal (of $389m). The waterfall chart shows the changes proposed revenue in GGT's initial proposal compared to the ERA draft decision. And compares ERA draft decision total revenue and GGT's revised proposal.

Figure 2-3 Total revenue - ($nominal)



Some of the notable aspects of the ERA draft decision building block components are discussed below.

2.3.2 Rate of return on assets

The ERA updated the rate of return for current market conditions, with a 20-day averaging period to 30 April 2024. For the draft decision the ERA determined a nominal after tax rate of return of 7.46 per cent (compared to 7.41% proposed by ERA).

However, ERA did not fully accept GGT's initial capital expenditure proposal resulting in the lower rate of return on assets in ERA draft decision.

Our revised capital expenditure proposal addresses concerns raised in the ERA draft decision about the initially proposed capex program. Namely we provide further information to support the proposed shared (corporate) capital expenditure program.

More information can be found in Section 4.

2.3.3 Depreciation

The ERA draft decision accepted GGT's proposal to shorten the lives of assets to the weighted average remaining life of pipeline and lateral asset classes. ERA considered that capping asset

lives is reasonable and supports efficient outcomes under the National Gas Law (NGL) and National Gas Rules (NGR). ERA said that its decision provided GGT a reasonable opportunity to recover efficient capital expenditure and this was unlikely to have a material impact on customers during AA5. Accelerated depreciation had a $200k impact on the total revenue.

2.3.4 Operating expenditure

Opex includes inspection, maintenance and business support activities and is necessary for the proper functioning of the pipeline. The ERA did not accept GGT's initially proposed operating expenditure proposal.

More information can be found in Section 5.

2.3.5 ERA reference service tariff

The lower draft decision revenue meant that reference service tariff was lower than the tariff in GGT's initial proposal.

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 (see next table).

Table 2-4 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

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

- 16.7 per cent, 16.9 per cent and 19.7 per cent lower than GGT's proposed AA5 tariffs for the GGP (see next table).

Table 2-5 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

2.4 GGT response

GGT has updated information to revise total revenue requirements for the GGP reference service tariff. We have used the building block approach in accordance with the NGR Rule 76. The components of the building block are used to calculate the reference tariff for the reference service.

The revised total revenue requirements are higher than the ERA's total revenue draft decision and this has impacted the tariff outcomes. As such we have not accepted the ERA tariff draft decision.

ERA draft decision		GGT response
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.	Not accepted
3.2	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.	Not accepted

2.5 GGT revised proposal

2.5.1 Revised total revenue requirement

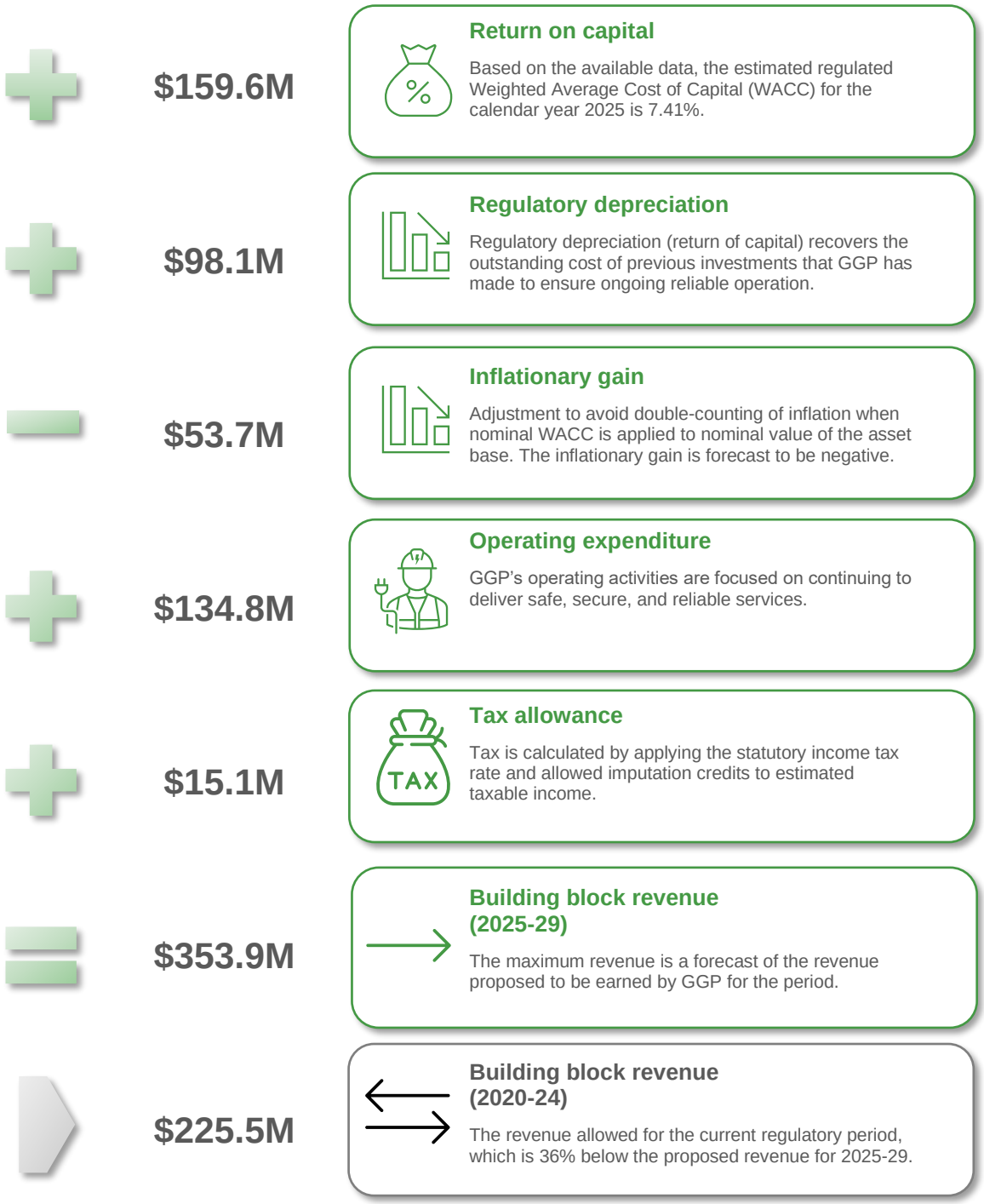
GGT's revised total revenue requirement for the 2025-29 period (AA5) is forecast to be $353.9 million (real $2023). This is an increase of $128 million (57 per cent) in real terms compared to the ERA approved total revenue for 2020-24 (AA4).

Table 2-6 Proposed total revenue for AA5 period (Real $2023, $m)

Real $2023 $m	2025	2026	2027	2028	2029	Total
Building block						
Return on Asset	32.4	32.9	32.3	31.4	30.5	159.6
Depreciation	20.7	20.5	20.0	18.8	18.1	98.1
Inflationary Gain adjustment	-10.9	-11.1	-10.9	-10.6	-10.3	-53.7
Opex	26.7	26.9	26.9	27.4	27.0	134.8
Tax (net)	3.2	2.8	2.9	3.0	3.1	15.1
Total Building Block Revenue	**72.1**	**72.1**	**71.3**	**70.1**	**68.3**	**353.9**

The increase in forecast total revenue is mainly driven by a combination of higher interest rates and inflation, higher capital expenditure, moderate uplift in operating expenditure and a small amount of revenue related to investments that will increase the reliability and security of the pipeline.

More explanation of the total revenue and building block requirements is presented in the following diagram.



2.5.2 Revised reference service tariffs

The revised reference service tariff for the firm transportation service has been calculated from the revised building block revenue and revised demand forecasts. The tariff for the firm

transportation service has increased due to the increase in the total revenue as discussed in this section.

The tariff proposed for the reference service is the same structure and revenue allocation approach as proposed for previous access arrangements.

Table 2-7 2024 ERA approved 2024 tariff and GGT revised proposed 2025 tariff (real $2023)

Component	**Unit**	**2024** **(ERA approved)**	**2025** **(Revised)**	**Variance**
Toll	$/GJ MDQ	0.127527	0.184769	45%
Capacity reservation	$/GJ MDQ km	0.000773	0.001297	68%
Throughput	$/GJ km	0.000208	0.000344	65%

Table 2-8 2024 ERA approved 2024 tariff and GGT initial proposed 2025 tariff ($nominal)

Component	**Unit**	**2024** **(ERA approved)**	**2025** **(Revised)**	**Variance**
Toll	$/GJ MDQ	0131672	0.195086	48%
Capacity reservation	$/GJ MDQ km	0.000798	0.001369	72%
Throughput	$/GJ km	0.000215	0.000363	69%

The increase in the reference tariff is mostly due to the higher interest rate and inflation environment, along with higher operating and capital expenditure requirements.

Further information can be found:

- GGP AA5 Tariff model - Public

3. DEMAND FORECASTS

3.1 Overview

GGT has updated demand forecasts with the latest information as requested by the ERA draft decision. This has resulted in small decline in forecast contracted capacity and throughput.

3.2 GGT initial proposal

Demand forecasts reflect expectations about future use of the pipeline services by customers. Expectations about future demand for pipeline services are important for determining future investment decisions for the pipeline and whether augmentation of the pipeline may be needed. The demand forecasts are also an important input into the calculation of the reference service tariff.

The proposed demand forecasts for covered GGP include forecasts from Yarraloola receipt point and the receipt point from the Northern Goldfields Interconnect (NGI). The NGI was commissioned in July 2023, providing another connection conveying gas from the Dampier to Bunbury Natural Gas Pipeline (DBNGP) to the GGP.

The proposed approach to forecasting demand for covered GGP firm transportation services for the 2025-29 period, involves two main steps:

1 Forecasting injections from Yarraloola receipt point

The proposed forecast for Yarraloola receipt point is based on:

- Current contracted capacity for the covered portion of GGP[1] for the 2025-29 period
- Expectations about probable renewals of contracts that expire during the 2025-29 period
- Throughput calculated using the average of actual load factors in the 2020-24 access arrangement period (resulting in a load factor of 0.9).

2 Forecast injections from NGI receipt point

The proposed forecast for NGI receipt point is based on:

- Currently contracted capacity plus highly probable contracted capacity (Case 2 information as provided by APA)
- Removal of contract capacities that transport gas along the NGI delivery points and do not flow into GGP (information as provided by APA)
- Expectations about renewals of contracts that expire during the 2025-29 period
- The NGI throughput has been based on the Yarraloola receipt point average throughput (load factor 0.9).

[1] Most of these contracts are for negotiated service under a separate Gas Transportation Agreement. The contracted information is used to calculate the reference service tariff.

GGT initial proposed demand forecasts for 2025-29 regulatory period are shown in the following table.

Table 3-1 GGP demand forecasts – initial proposal

	2025	2026	2027	2028	2029
Total Contracted Capacity (TJ/day)					
Yarraloola	110.2	110.2	110.2	110.2	110.2
NGI	22.8	27.8	32.8	32.8	32.8
Total	133.0	138.0	143.0	143.0	143.0
Throughput (TJ/day)					
Yarraloola	93.3	93.3	93.3	93.3	93.3
NGI	19.7	24.0	28.3	28.3	28.3
Total	113.0	117.3	121.6	121.6	121.6

3.3 ERA assessment and draft decision

The ERA assessed the GGT's demand forecasts and method of preparing the forecasts and found that GGT had taken a reasonable approach to demand forecasts by analysing Australian commodity production projection and existing contracts to forecast contracted capacity.

ERA considered that GGT's method of basing the gas throughput forecast on the actual AA4 throughput rate was reasonable. ERA noted however that GGT's proposed throughput rate for some existing contracts for shippers undertaking gold mining operations is lower than the AA4 actual throughput rate. The ERA considered that it is reasonable to increase the gas throughput forecast for these contracts to reflect actuals during AA4 and a projected stable gold export during AA5.

The ERA also noted error in GGT's capacity demand forecast at the NGI receipt point, leading to the contracted capacity and gas throughput forecasts being overstated by 0.5 TJ per day.

The ERA noted that GGT did not publish sufficient information for AA4 demand to meet the requirements under section 72 of the NGR and has requested this data be provided in response to the Draft Decision.

ERA requires GGT to update its demand forecast by:

- Incorporating new information that may affect the demand forecast.
- Incorporating analysis of the 2023 actual demand that may affect the demand forecast.
- Incorporating any likely contracts at the NGI receipt point not included in its initial forecast that become highly probable.

3.4 GGT consideration

We have taken on board ERA comments and updated demand forecasts for the most available information, provided further explanation of the method for forecasting throughput, and amended discrepancies.

3.4.1 Latest information

Since the draft proposal was submitted in December 2023, there have been some changes that have affected future demand.

Updates for Yarraloola receipt point

In July 2024, BHP announced that the Nickel West operations in Western Australia will be temporarily suspended from October 2024. This decision is driven by an oversupply of nickel in the global market. GGT understands that BHP intends to review the decision to temporarily suspend Western Australia Nickel by February 2027.[2] At the time GGT submitted the revised proposal there has been no formal notification about the future capacity requirements.

Apart from a small variation to one customer's contracted capacity, the demand forecasts from Yarraloola are consistent with the initial proposal.

Updates for NGI receipt point

GGT's initial forecast for the NGI receipt point was based on actual contracted capacity and customer contracts that were considered 'highly probable' at the time of submitting the initial proposal.

Since then, there has been a change to circumstances for several customers and the highly probable contracts have been delayed or not firmed up. The main reasons for the changes include:

- Extended land access negotiations delaying projects
- Customer operations suspended thus reducing probability of contracting a present time
- Customers considering alternate energy sources.

We have amended the forecast for NGI to take account of the change in circumstances. This has reduced the NGI forecasts for the 2025-29 regulatory period.

3.4.2 Forecasting throughput

Throughput forecasts for each customer are calculated using each customer's average contracted capacity for firm transportation service multiplied by the average of their actual load factor. The load factor represents the utilisation rate.

The methodology applied for the revised forecasts is consistent with the methodology used in the initial proposal. For the revised proposal we have actual demand results for 2023 and we have included them in the calculation.

[2] As viewed 12 August 2024 at Western Australia Nickel to temporarily suspend operations (bhp.com)

The load factors have been derived from the actual contracted capacity and actual throughput for each customer over four years from 2020-2023 period.

To forecast throughput for the 2025-2029 period, we capped load factors at a maximum of one (1) per customer. The reason for capping the load factor at 1 is to reflect the contracted maximum capacity for each customer for firm transportation.

In relation adjustments made by ERA to the throughput for gold customers, GGT wishes to provide further information to explain why the ERA approach is not appropriate.

Capping at the contracted maximum capacity is a reasonable assumption to make for the GGP because the pipeline capacity for a firm transportation service is fully contracted.

Despite the current healthy international gold prices, GGT has not received requests to substantially vary customer contracts to increase contracted capacity for firm transportation. Only one customer has sought a small increase in their contracted capacity. There has been no other change to the operations of the GGP gold mining customers nor to the contract requirements.

Given that GGP is fully contracted for firm transportation it is not appropriate to assume load factors above 1.

Consistent with the methodology applied in the initial proposal:

- The revised load factors for Yarraloola receipt point customers have been updated to include actual 2023 information.
- There is a lack of historic information for new NGI customers and so we have been assumed to be the average load factor of the Yarraloola receipt point over 2020-2023.

3.4.3 AA4 information

The NGR states the AAI must include usage of the pipeline over the earlier access arrangement period (AA4) showing for a transmission pipeline:

- Minimum, maximum, and average demand for each receipt or delivery point, and
- User numbers for each receipt or delivery point.

Our interpretation of the NGR requirements is that usage refers to actual demand rather than forecast information. Nevertheless, we have prepared the information as requested by the ERA.

We have updated the forecasts using best available information and so have not accepted ERA draft decision n. 2.4.

Table 3-2 GGT response to ERA draft decision on demand

ERA draft decision		GGT response
2.1	GGT must publish the minimum, maximum and average demand on the covered GGP, including actuals and forecasts for AA4, for each receipt or delivery point.	Accepted
2.2	GGT must publish user numbers on the covered GGP, including actuals and forecasts for AA4, for each receipt or delivery point.	Accepted
2.3	GGT must amend the terms “maximum capacity” and “average capacity” in the demand model and the demand forecast report to “maximum contracted capacity” and “average contracted capacity”.	Accepted

ERA draft decision		GGT response
2.4	GGT must amend the capacity and throughput forecasts to reflect the ERA's forecasts in Table 2.5 of Draft Decision Attachment 2.	Not accepted

3.5 GGT revised proposal

The proposed demand forecasts for covered GGP include forecasts from Yarraloola receipt point and the receipt point from the recently commissioned Northern Goldfields Interconnect.

As requested by the ERA, we have updated demand forecasts with the latest information. This has resulted in small decline in forecast contracted capacity and throughput. The revised demand forecasts are shown in the following tables.

The actual demand and forecast demand along with information on number of receipt points, delivery points and users is shown in the Access Arrangement Information.

Table 3-3 GGP 2020-24 - comparison of ERA 2019 approved forecasts and actual demand

Demand forecasts - Contracted capacity for pipeline services						
AA4 ERA approved forecasts	**Unit**	**2020**	**2021**	**2022**	**2023**	**2024**
Maximum contracted capacity	TJ/day	110.5	110.5	110.5	110.5	110.5
Average contracted capacity	TJ/day	110.5	110.5	110.5	110.5	110.5
Minimum capacity	TJ/day	N/A	N/A	N/A	N/A	N/A
Actual demand	**Unit**	**2020**	**2021**	**2022**	**2023**	**2024f**
Maximum contracted capacity	TJ/day	108.5	111.4	115.7	120.1	113.9
Average contracted capacity	TJ/day	108.5	109.5	110.8	112.9	123.9
Minimum capacity	TJ/day	108.5	108.5	108.5	108.2	108.4
Variance	**Unit**	**2020**	**2021**	**2022**	**2023**	**2024f**
Average capacity	TJ/day	-2.0	-1.0	0.2	2.4	13.3
Average capacity	%	-2%	-1%	0%	2%	12%

Demand forecasts - Throughput for pipeline services						
AA4 ERA approved forecasts	**Unit**	**2020**	**2021**	**2022**	**2023**	**2024**
Maximum	TJ/day	N/A	N/A	N/A	N/A	N/A
Average	TJ/day	90.7	90.7	90.7	90.7	90.7
Minimum	TJ/day	N/A	N/A	N/A	N/A	N/A
Actual demand	**Unit**	**2020**	**2021**	**2022**	**2023**	**2024f**
Maximum	TJ/day	112.2	107.9	112.8	116.1	112.3
Average	TJ/day	96.8	94.6	97.2	101.8	106.2
Minimum	TJ/day	78.4	76.3	77.0	72.6	76.1
Variance	**Unit**	**2020**	**2021**	**2022**	**2023**	**2024f**
Average contracted capacity	TJ/day	6.1	3.9	6.5	11.1	15.5
Average capacity	%	7%	4%	7%	12%	17%

Table 3-4 GGP 2025-29 demand forecasts - Yarraloola receipt point and NGI receipt point

Demand forecasts (capacity and throughput) for pipeline services						
AA5 forecasts - Yarraloola	**Unit**	**2025**	**2026**	**2027**	**2028**	**2029**
Maximum contracted capacity	TJ/day	110.4	110.4	110.4	110.4	110.4
Average contracted capacity	TJ/day	110.4	110.4	110.4	110.4	110.4
Average throughput	TJ/day	94.2	94.2	94.2	94.2	94.2

AA5 forecasts - NGI	**Unit**	**2025**	**2026**	**2027**	**2028**	**2029**
Maximum contracted capacity	TJ/day	12.9	14.3	14.3	14.3	14.3
Average contracted capacity	TJ/day	12.9	14.3	14.3	14.3	14.3
Average throughput	TJ/day	11.4	12.6	12.6	12.6	12.6

AA5 forecasts - Total	**Unit**	**2025**	**2026**	**2027**	**2028**	**2029**
Maximum contracted capacity	TJ/day	123.3	124.7	124.7	124.7	124.7
Average throughput	TJ/day	105.6	106.9	106.9	106.9	106.9

Further information can be found in:

- GGP AA5 Demand forecast report – Public
- GGP AA5 Demand forecast model - revised - Public
- GGP AA5 Demand forecast model - revised – Confidential
- GGP AA5 Access Arrangement Information – Public

4. CAPITAL EXPENDITURE

4.1 Overview

Capital expenditure (capex) proposed by GGT covers the investments required for the GGP to continue to provide a safe, reliable, and secure supply of energy.

Investment requirements have been growing due to the increasingly complex external environment with significant cost increases and supply shortages, increasing focus on emissions reductions and heightened focus on cyber and physical security.

Under the regulatory framework, 'conforming capital expenditure' is added to the covered pipeline regulatory asset base. This enables the recovery of the costs over time. For capex to be conforming it must meet three criteria in the Rules:

1. Prudent and efficient meaning '...as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services in a manner consistent with the achievement of the national gas objective...'
2. Justifiable. Required to achieve specific objectives in the Rules e.g. necessary to maintain or improve the safety of services or help meet emissions reduction targets.
3. Properly allocated:
    - Costs directly attributable to reference services are to be allocated to those services.
    - Costs not directly attributable allocated on a basis, consistent with the revenue and pricing principles, determined or approved by the ERA.

Our initial proposal included $70.2 million of capex for AA4 and $62.9 million for AA5.[3]

The ERA, with the support of their technical consultant EMCa, reviewed our estimated AA4 and forecast AA5 capex. The ERA's made no adjustments to AA4 or AA5 capex on the basis of prudency or efficiency and did not find that any element of our program was unjustified.

- However, the ERA made several adjustments to how costs have been allocated to the covered pipeline. The ERA has made changes where there have been several movements which appear to be connected but are in fact separate. Specifically:
- Our proposal to remove management fees following APA's acquisition of Alinta's share of the GGP and the correction of our historical error of not allocating shared APA costs to the GGP.

[3] Our Initial Proposal indicated that we had incurred $64.9 million in AA4 and had proposed $69.3 million for AA5. However, in the information request process we identified several discrepancies in our proposal. This includes the under allocation of costs to the covered pipeline in AA4 (which when corrected increase actuals in AA4) and the erroneous inclusion of two projects in AA5 (which when removed lowered our forecast).

- The increase in the proportion of covered capacity as a result of the Northern Goldfields Interconnect (**NGI**) and our proposed changes to the Cost Allocation Methodology (**CAM**), to reduce the allocation of costs to the covered pipeline.

We acknowledge the complexity of these issues (especially when considered together) and that we have made our own oversights in this area.

We note that in proposing to reduce covered pipeline costs (relative to the status quo approach), we inadvertently made our proposal overly complex. This has led to the relatively rare regulatory outcome of historic expenditure being disallowed. This will prevent the recovery of significant efficient, prudent and required investments we made to provide covered pipeline services.

Our approach for this revised proposal is to provide further explanation on these matters to address the ERA's concerns. In several cases, while we can see the logic for the ERA's adjustments, they are premised on assumptions which do not hold. Correcting these assumptions leads to the conclusion that the capex in this revised proposal is properly allocated, meets the conforming capex criteria and can be added to the regulatory asset base.

Our consideration of each adjustment is shown in Table 4-1.

Table 4-1 ERA's draft decision and our consideration

Area	ERA's Draft Decision	Revised Proposal
Shared capex	Disallow all shared capex (IT/OT, cyber security and other) in AA4 ($30.4 million) and AA5 ($15.9 million) on the basis that these costs have already been recovered through APA's corporate charges.	Do not accept. Shared capex has been properly allocated (consistent with the CAM set by the ERA). As this expenditure is efficient, prudent and justified, and therefore meets the conforming capex criteria, we have continued to include these costs We can confirm that there has been no 'double dipping' of costs across capex and opex. Costs incurred by APA to provide covered pipeline services are allocated and directly passed through as either opex or capex to the covered pipeline. There has not been, and is no, asset utilisation charges (or similar) which recovers shared capital costs through an opex charge or fee.
Allocator for capex (not compressor or distance related)	Allocator changed to the proportion of covered contracted capacity before the NGI connected (rather than as forecast) for AA5 on the basis that there has been no change to the GGP's cost base.	Do not accept. We continue to propose that these costs are allocated by applying a flexible and fair CAM, largely consistent with the ERA's approach for AA3 and AA4.4 This approach ensures that both the covered and uncovered pipelines are allocated a proportionate share of costs which they each cause and benefit from. In contrast, the ERA's draft decision adopts specific cost allocators which are not consistent with the Rules and are not consistent with widely accepted regulatory principles such as causer-pays, beneficiary-pays, fairness or flexibility.

[4] The only difference is that in the Cost Allocation Methodology set by the ERA for AA3 and AA4 is that these costs are allocated using a contracted capacity-distance allocator rather than a contracted capacity allocator. Our proposal to use contracted capacity rather than contracted capacity-distance reduced the allocation of costs to the covered pipeline.

Area	ERA's Draft Decision	Revised Proposal
	Adjusted the allocator to be consistent across AA4 and AA5.5	Do not accept. We propose that AA4 costs are allocated in accordance with the CAM set by the ERA for AA4. As we proposed to move from a capacity-distance allocator to a capacity allocator for AA5,6 this results in different allocators across AA4 and AA5.[7]
Cost categorisation	Moved the Wiluna wet seals project from emissions reductions to reliability on the basis that emissions reduction is an added benefit.	Accept.
Wiluna ambient temperature	Reduced the allocation of the Wiluna ambient temperature project costs to the covered pipeline, on the basis that the project provides benefits to the covered and uncovered pipeline.	Do not accept. We continue to propose that costs are allocated in accordance with the ERA's AA4 CAM. As Wiluna is a covered compressor unit 100% of the costs are allocated to the covered pipeline. Moving to a consistent beneficiary-based approach for compressor related costs would result in a material increase to costs allocated to the covered pipeline.
Receipt and delivery points	Removed expenditure relating to receipt and delivery points on the basis that these are uncovered assets.	Accept. We have reviewed the sites and agree that several should be excluded.[8] We also identified an additional site which should not have been included and removed this from our revised forecast.[9]

[5] ERA 2024, *Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline: Attachment 4: Regulatory capital case,* p.8 Available here.
[6] As noted earlier, this change reduces the allocation of costs to the covered pipeline.
[7] We note that our initial proposal included a Forecast Capex Coverage Allocation Model which was originally developed to transparently show how we allocated costs in our forecast. This model also applied the AA5 allocators to the forecast of AA4 costs rather than the AA4 allocators. We made this decision to keep the model simple, noting that this approach led to a slight underestimate of costs and that CY2023 costs would be updated in this revised proposal. We recognise that this decision may have led to confusion regarding our approach and have updated this model in our revised proposal to improve clarity and separately apply AA4 cost allocators to forecast AA4 costs (CY2024).
[8] We note that EMCa assumed that this was because the delivery points were shipper funded. However, this may not always be the case particularly for the delivery points built as the part of the initial pipeline.
[9] Re-life Program Leinster MS EI&C.

4.2 Revised proposal

Our revised proposal capex for AA4 and AA5 accepts the ERA's draft decision where possible and updates the remaining elements of our proposal, as outlined in Table 4-2.

Table 4-2 Revised proposal updates approach and specific changes

Approach	Specific changes
Accepted the ERA's draft decision where possible	• No changes to AA5 Stay in Business projects accepted by the ERA. • Accepted the ERA's draft decision with respect to the removal of delivery point projects. • Removed an additional delivery point project (even though it was approved by the ERA) as it should not have been initially included. • Recategorised the Wiluna Wet Seals project to reliability.
Proposal updates	• Aligned historic capex with the May 2024 RIN which incorporates corrected allocators and actuals for CY2023. • Aligned forecast cost allocators with our revised proposal demand forecast. • Revised our 'other' shared capex forecast, to take into account CY2023 costs (our forecast is based on an average of historic costs). • Updated our cyber security capex forecast to reflect that a smaller proportion of these costs will be capitalised. See section 0 for more details.
Maintained position	• Continued to include Shared Capex and apply the ERA's AA4 CAM to AA4 costs.

Our capex for AA4 is shown in Table 4-3. The primary difference between the ERA's draft decision and our revised proposal is the inclusion of shared capex and our application of the ERA's AA4 CAM.

Table 4-3 AA4 Capex comparison ($2023)

	Category	Initial Proposal	ERA Draft Decision	Revised Proposal
Stay in business	Integrity	0.5	0.5	0.6
	Rotating maintenance	2.5	2.5	4.8
	End of equipment life	7.5	5.7	5.7
	Net-zero	-	-	-
	Physical security	1.5	1.5	1.5
	Hazardous area / compliance	1.1	1.0	1.2
	Reliability	19.9	15.6	21.4
	Other	4.7	3.5	4.6
	Buried pipework	2.0	1.8	2.1
	Sub-total	39.7	32.3	42.0
Shared	IT/OT	18.0	-	17.1
	Cyber security	4.0	-	1.5
	Other shared capex	8.3	-	7.8
	Sub-total	30.4	-	26.5
Total		**70.2**	**32.3**	**68.0**

Our forecast capex for AA5 is shown in Table 4-4. Forecast stay in business capex is consistent with our initial proposal (but slightly lower as we have removed some spend related to delivery points). Shared capex is lower due to the updated forecast for 'other shared capex' and the adjustment to cyber security (reflecting that we will be capitalising a smaller proportion of these costs).

Relative to the ERA's draft decision, our stay in business capex is slightly lower as we identified an additional project which should have been excluded. We have also continued to include all shared capex as this expenditure meets the conforming capex criteria in the Rules.

Table 4-4 AA5 Capex comparison ($2023)

	Category	Initial Proposal	ERA Draft Decision	Revised Proposal
Stay in business	Integrity	12.9	12.7	12.7
	Rotating maintenance	3.1	3.1	3.1
	End of equipment life	11.0	8.4	7.8
	Net-zero	4.0	-	-
	Physical security	7.6	7.5	7.5
	Hazardous area / compliance	0.8	0.8	0.8
	Reliability	4.3	8.3	8.3
	Other	1.2	1.1	1.1
	Buried pipework	2.1	2.1	2.1
	Sub-total	47.0	44.0	43.5
Shared	IT/OT	5.2	-	5.2
	Cyber security	3.8	-	1.0
	Other shared capex	7.0	-	6.7
	Sub-total	16.0	-	12.8
Total		**63.0**	**44.0**	**56.3**

4.3 Shared capex

4.3.1 GGT initial proposal

Historic allocation of APA shared costs to the GGP

APA incurs shared capital and operating expenditure to support the delivery of services for all of its assets. This includes essential functions such as Information Technology & Operational Technology (ITOT), and security of critical infrastructure programs (cyber security) and other shared costs (such as property costs).

The GGP benefits from these functions as they are essential to the provision of services. The GGP is able to draw on APA's scale, expertise and established processes as the largest pipeline service provider in Australia.

The alternative of setting up standalone functions would be more expensive and less effective. It would lead to a poorer quality and higher cost service to our customers.

Shared costs are allocated on a revenue basis. This approach is transparent, simple, measurable and well accepted (including by the AER and the ERA[10]). It ensures that cost allocation correlates with the degree to which each asset causes and benefits from these shared costs. It is not possible to develop a more accurate causal allocator[11] given the diverse nature of APA's assets and customers.[12]

[10] ERA, Final decision on proposed revisions to the Dampier to Bunbury Natural Gas Pipeline access arrangement 2021 to 2025, 1 April 2021, p. 290

[11] Typical alternatives include customer numbers, throughput etc.

[12] APA's assets span gas (transmission, distribution and storage), electricity (transmission) and generation (gas, solar and wind) while its customers range from large mining companies to individual consumers.

Shared opex has historically been allocated to the covered pipeline under the 'corporate costs' opex category. However, shared APA's shared *capex* has not previously been allocated to GGP.

This issue was first identified and reported in our response to the ERA's 2022 RIN for calendar years 2019, 2020 and 2021. In the Basis of Preparation, submitted to the ERA on 29 August 2022, we noted:[13]

> *The APA Group acquires assets (corporate assets) which support the operations of the APA assets, such as:*
>
> - *information technology relating to the development and enhancement of finance systems (i.e., ERP), human resource systems and asset management systems (i.e. Maximo); and*
> - *Right of Use assets and leasehold improvements relating to corporate premises.*
>
> *For financial accounting purposes, corporate asset expenditures are recorded at the APA Group corporate level and are not allocated amongst its assets.*
>
> *The covered section of the GGP has been benefiting from the use of the APA Group's corporate assets since being acquired by APA Group on 18 August 2004. Despite this, the covered portion of the GGP has not been allocated a share of APA Group's corporate asset expenditures for regulatory purpose - until the current access arrangement period (2020 to 2024*).

Removal of management fees

Under the GGT Joint Venture agreement, the GGT is responsible for the development, operation and maintenance of the GGP. The GGT is intended to be a small entity with the day-to-day operation and management provided by others.

APA provides operational and commercial operations support services. Under these agreements costs are passed directly through to the GGT. Until recently, the GGT was also charged an operations management fee and a commercial management fee. This fee is on-top of the costs incurred. This approach is consistent with the majority of suppliers who provide asset management services in competitive markets and earn margins in excess of their directly incurred expenses, overheads and a return of capital.[14]

Paying these fees enabled the GGT to access APA's unparalleled scale and expertise. With this approach the GGT was able to incur costs below what would be lower than possible if it sought to undertake these functions on a standalone basis.

With APA's acquisition of Alinta's portion of the GGT Joint Venture on 1 November 2023, APA now owns 100% of the GGP. As a result, we made the decision to remove these fees ($2.4M per annum) from our opex base year. All costs now pass through to the GGT without any added fees or margin.

[13] Goldfields Gas Pipeline – Basis of Preparation GGT's response to ERA Regulatory Information Notice issued on 1 April 2022 For Calendar Years 2019, 2020 and 2021, August 2022, p.21 (not published).
[14] Lowe K 2014, *Contractor Profit Margins (Benchmark Study: 2004-2013) A Report for JGN, p.*1 Available here.

This approach is a great outcome for customers as it lowers costs while ensuring that the GGT can continue to access the benefits of APA's scale and expertise.

4.3.2 ERA draft decision

The ERA disallowed all shared capex across AA4 and AA5 on the basis that we have not demonstrated that this expenditure would not already be covered by the existing APA charges.[15] This decision was informed by EMCa's understanding of the management fees[16] and associated concerns.[17]

4.3.3 GGT consideration

The ERA's disallowance of our AA4 and AA5 shared capex is premised on the assumption that we have sought to recover costs twice: in opex and again through capex. This is not the case.

Below we:

1. Clarify matters raised by EMCa to highlight that we are not seeking to recover the same costs twice.
2. Provide additional details on our commercial services and operating agreements.
3. Outline the vital functions shared capex provides and how it benefits customers.
4. Provide further details on our delivery approach for our ITOT program.
5. Provide evidence that most prudent and efficiency pipelines service take advantage of shared functions and incur allocations of shared capex costs.
6. Outline the relevant National Gas Rules building block requirements.

Clarifying matters raised by EMCa

We consider that EMCa have misunderstood several elements of our proposal, leading to the concern that we have sought to recover the same costs twice. Below we provide additional clarification to provide the ERA confidence that we are not seeking to recover costs twice.

Management fees and the allocation of shared capex

EMCa said that it understood that opex management fees were removed on the basis that APA will instead directly charge the GGT a part of its corporate costs:[18]

> *GGT has also deducted $2.4 million from its 2022 base year opex to account for management fees that were previously disbursed to a JV entity, but which are now understood to be incorporated into APA's cost base since APA acquired its JV partner's interest. As discussed in paragraph 358, these management fees have been deducted from GGT's 2022 operating costs and our understanding is that the GGT-specific management*

[15] ERA 2024, *Draft decision on revisions ot the access arrangement for the Goldfields Gas Pipeline, Overview, p.*2 Available here.
[16] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* p.61 Available here.
[17] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* pp .xii and 37 Available here.
[18] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* p.61 Available here.

> *services previously provided under the JV arrangement are now provided directly by APA and are charged as part of its 'corporate costs' allowance.*

This is incorrect. The removal of management fees related to APA's acquisition of Alinta's share of the GGT, which occurred on 1 November 2023. These management fees were a charge on-top of costs. They were not a fee to recover shared capex costs (such as an asset utilisation charge) through opex.

The allocation of shared capex which we included in our regulatory accounts (first provided to the ERA on 29 August 2022) is to recover costs which APA incurs and the GGT benefits from.

The only difference between shared capex and shared opex is whether the expenditure, under accounting standards, is expensed in that year or depreciated over the life of the asset (capitalised).

An expectation that allocating shared capex would result in a reduction in the allocation of shared opex

On the assumption that there had been a change in how costs were charged to the GGT, EMCa expected that the allocation of shared capex to the GGT would result in a reduction in the allocation of shared opex:[19]

> *We looked for evidence as to whether APA group may have changed its policy for charging for its services to GGT. GGT makes no reference to a change of this nature, and which would, if made, be expected to reduce the corporate opex charge. As we discuss in section 6, the corporate charge has instead increased in 2022 to $7.9 million and is proposed to remain at around $8.397 million per year (in $2023) through AA5.*

Allocating shared capex costs to the GGT has no effect on the allocation of shared opex. Shared opex and capex are both incurred at the APA Group level then allocated to each asset which benefits from the expenditure.

As outlined above, there is no historic opex charges which recover capital costs (such as an asset utilisation charge).

Evidence that expenditure had not been correctly accounted for in AA4

EMCa reported that they sought to find corroborating statements related to our regulatory account review reports: [20]

> *We also looked for any suggestion in GGT's documentation that its regulatory statement auditors may have identified expenditure in AA4 that had not been correctly accounted for but did not see such evidence.*

We did not incorrectly allocate shared capex to the GGP in our AA4 regulatory accounts (the RIN templates). Our RIN responses to the ERA included shared capex allocated to the GGP. The basis of preparation also noted that shared capex had not been previously allocated historically and explained the basis for the allocation in AA4.

[19] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* p.37 Available here.
[20] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* p.37 Available here.

Concern that we have sought to recover costs twice

Based on the incorrect assumptions above, the EMCa identified the risk that there is a risk that we are seeking to recover costs twice:[21]

> *Moreover, inclusion of such an amount would appear to represent 'double-dipping' to the extent that these costs have previously been included in APA's Corporate opex fee, a fee which has increased in the AA5 submission. We consider that this amount is not conforming capex.*

And:[22]

> *It is not consistent with APA's corporate service charge to GGT, to also allocate to GGT the capex that APA incurs in providing these services.*

As there is no overlap between shared opex and capex allocated to the GGT and accordingly is no 'double dipping' of costs. The opex and capex allocated to the GGP reflects a proportion of the opex and capex incurred by APA at the group level.

Commercial services and operating agreements

GGTJV is the unincorporated joint venture that owns the GGP. GGT has been engaged by GGTJV as the manager of the GGP. GGT provides services under the GGT commercial services agreement and GGT operating agreement. Both these agreements are dated 2003.

The GGT commercial services agreement and GGT operating agreement cover a range of services but do not specify corporate activities such as information technology, operational technology, or cyber security or property. As a result, these charges do not recovery the shared capital costs that APA incurs in providing services on the GGTs behalf.

GGT commercial services agreement

The commercial services agreement provides for the provision of commercial services that include "Specified Commercial Services" and "Additional Commercial Services".

Specified Commercial Services means the service as specified in Schedule 1 of the Commercial Services Agreement and pursuant to an approved work program and commercial services budget for a financial year. The categories of commercial services are:

- management (leadership and management of staff and contractors);
- commercial activity (customer related activities, regulatory matters, demand forecasting);
- JV corporate services (secretariat services, preparation of reports and advice as required)
- financial administration and budgeting.

Additional Commercial Services means services which may be provided in addition to those provided for pursuant Commercial Services Agreement and pursuant to an approved work program for a financial year in accordance with the provisions of clause 4.2.

[21] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* p.xii Available here.
[22] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* p.37 Available here.

None of the services in the commercial services agreement relate to any shared functions such as ITOT, cyber security or property.

GGT operating agreement

The operating agreement provides for the provisions of various services on the terms and conditions in the operating agreement to facilitate the "proper and efficient operation" of the GGP.

Specified services are all services required to comply with the requirements of the pipeline licence and Australian Standards 2885. Schedule 1 sets out the type of activities required in the ongoing operation and maintenance of the GGP as agreed in the asset management plan. Matters include:

- management (leadership and management of operations staff and contractors, preparation of asset management plan);
- operations (operations to satisfy contractual, regulatory and statutory requirements);
- gas control and measurement (liaison with shippers, control of operating conditions, optimisation of operations, monitoring of gas quality);
- engineering (maintenance of technical interface with shippers and users, ensuring compliance with statutory requirements, licences, regulations, and standards, management of quality, health, safety, and environmental systems);
- liaison (maintenance of digital GIS database, maintain good relations with landowners); and
- administration (administration of staff and contractors, maintenance of parts, materials, and equipment inventory).

The operating agreement also provides for additional services.

None of the services in the commercial services agreement relate to shared functions such as ITOT, cyber security or property. The only IT referred to in the agreement is a GIS database.

Further details on our shared capex programs and the customer benefits

Below we provide more detail on our shared functions and how they support service delivery and in turn benefit customers.

Importantly, shared capex allocated to the GGP does not include functions related to electricity transmission (REZs), market transactions/ acquisitions, R&D (hydrogen). These initiatives do not relate to the provision of covered pipeline services and are paid for by shareholders.

ITOT & cyber security

The proposed ITOT expenditure is necessary to enable GGP to support financial reporting systems, market systems and asset management systems. These are systems integral to the proper functioning of an energy business.

Upgrading and maintaining ITOT is critical to maintaining the safety, reliability, and security of GGP services. The program is necessary to maintain and improve the safety of the public and personnel. The proposed expenditure is of a nature that a prudent organisation would incur.

Maintaining information, communications and operational technology is accepted as good industry practice. APA seeks to reduce risk to as low as reasonably practicable in a manner that balances cost and risk. This is a benefit to GGP customers.

GGP customers benefit from economies of scale and scope in the delivery of services of APA's enterprise-wide approach to ITOT. The sharing of programs across several assets delivers significant benefits to GGP customers. Costs would be significantly higher if these costs were incurred by a stand-alone entity.

The energy market is complex and requires sophisticated ITOT. GGP customers benefit from lower costs and enhanced security for the services that the ITOT program enables and supports.

Projects are subject to APA procurement policy and be carried out by suitably qualified external contractors and consultants and ensure lowest sustainable costs. GGP benefits from economies of scale and scope relative to have to incur technology costs on a stand-alone basis.

APA's enterprise-wide information technology program enables core business information and communications technology to respond in an effective way to the energy sector trends toward decarbonisation, decentralisation, and digitisation.

APA's technology program provides enterprise-wide delivery of business transformation, continuous improvement initiatives and technology solutions and maintains and protects APA's operations. The enterprise-wide approach to information technology provides economies of scale and scope in the delivery of services.

GGP customers will benefit from the key technology transformation programs which are modernising and upgrading important systems.

APA's ITOT program provides enterprise-wide delivery of business transformation, continuous improvement initiatives and technology solutions and maintains and protects APA's operations. The enterprise-wide approach to information technology provides economies of scale and scope in the delivery of services. The enterprise-wide approach (rather than a stand-alone approach) enables customers to benefit from higher reliability and security at lower costs.

Replacement of out-of-date systems is necessary to modernise legacy systems.

These programs include a new Enterprise Resource Planning (ERP) platform, a Technology Enablement Program (TEP), which includes establishing core capabilities and services in the cloud, and Grid Solutions - APA's hydrocarbon accounting system.

- **Grid/ Energy Components**. Information on capacity used, available capacity, amber and red events are sourced from the Goldfields Gas Pipeline Customer Utilisation Power BI report for the reporting period. All the data comes directly from Energy Components. The capacity and event flags are the same information that is reported from Energy Components to the Gas Bulletin Board. The average daily meter readings are calculated by the sum of the daily meter reading in the selected time range and then divided by number of the days in that period
- **Financial systems track revenue and operating expenditure**. Revenue and operating expenditure is recognised in accordance with the requirements of Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards

Board and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

- **Operational Technology.** Operational Technology (OT) is the connection of site equipment to the remote facility. This technology is required to operate any physical plant in the field. Some key responsibilities OT has at APA includes:
    - Automatically controlling equipment on site
    - Enabling digital lockouts on site to ensure field staff can safely perform maintenance
    - Field staff to take control of the site (if required)
    - Remote staff to operate the site.

    Operational technology is used by operators and engineers to collect data as it pertains to the management of APA's fleet of assets and asset lifecycle management such as:
    - When equipment requires servicing
    - When the plant is not operating as expected.

    Operational technology is an essential support to the business physical operation of sites to maintain safety and reliability of services, as well as supporting commercial operations through the collection of customers metering data.

Property

Included in shared other capex is an allocation of APA property costs of offices in Brisbane, Fyshwick (Canberra), Perth, Southbank (Melbourne) and Sydney.

A proportion of national property costs are allocated to the GGP as the GGP is supported by national teams. This includes asset management, cyber security, commercial, operations as well as net-zero and climate support.

Applying a national approach ensures that the GGP can access national wide talent pools and specialists (who also transfer their knowledge and expertise from across APA's wide portfolio of pipeline assets). It also means that the GGT pays a relatively smaller proportion of the Perth office than if the Perth office costs were only split across WA based assets.

IT/OT delivery approach

In the information request process, information was sought on the delivery effectiveness of our ITOT program. We would like to take this opportunity to provide additional detail and information.

Our Technology Project Management Office (Tech PMO) supports the application of frameworks and assurance processes as well as other functions such as resource management and analytics, project reporting and portfolio metrics and Project Portfolio Management (PPM) tools and training.

In Attachment 4.2 ITOT project delivery supplementary information– Confidential we provide:

- Project frameworks – which are implemented to ensure consistent use and application of project delivery practices for all programs and projects within our Strategic and Technology portfolios. Importantly these frameworks:

- Scale to take into account the complexity, scale, and costs of the projects and programs. We have included examples of our large/medium and small frameworks.
- Ensure project specific deliverables (with standardised templates) relate to the scale and complexity of the project. We have included the standard deliverable matrix as an example.
- Align with standard project management methodologies and maturity models, such as PRINCE2, PMBOK, P3M3 etc to ensure that our program and project management is aligned to best practice.

- Supporting frameworks – which again scale and ensure that an appropriate level of governance and assurance is applied. This can involve internal and external assurance support at difference stages of a project and the implementation of standard controls such as Steering Committees (standard project governance), project monthly reporting (covering the standard elements of financials, risk and issues, schedules, dependences, resource etc.) and the processes to monitor projects and adjust as necessary.

Incurring shared capex is consistent with good industry practice

Most large pipelines in Australia incur shared support costs as well as costs directly attributable to a specific service. While the nature and extent of these functions different across pipelines, shared costs typically relate to ITOT costs, supporting functions and property. This approach is generally undertaken to realise economics of scale of these common functions across multiple assets.

Whether shared or not, these costs can be substantial. We note that AGIG's Dampier to Bunbury National Gas Pipeline's draft plan for AA6 noted that it incurred $50 million on IT in AA5 and is forecasting a further $63.9 million of major IT and OT related projects in AA6. [23] In comparison the shared capex for the covered GGP over AA5 and AA6 combined, including major IT transformation projects of our own, came in at $39.3 million.

We note that most pipelines incur shared capex costs in addition to shared opex costs. Often there are capex and opex components of a cyber security program or the installation of an IT system to support a shared function (such as HR or finance). While the capex and opex can be related it doesn't mean that they are duplicated.

Table 4-5 presents average annual shared and pipeline capex reported by large pipelines in their financial disclosures required under Part 23 of the Rules. All pipelines, aside from the TGP, report shared capex. For the covered GGP we have taken average capex over AA4 and AA5 while for the others we have taken the average of the last five years of publicly available data.

All pipeline businesses are structured differently and all pipelines have different requirements. Some businesses may choose to deliver services through greater use of shared programs and costs while others might structure their business with a greater focus on each asset.

As we noted in our initial proposal, the covered GGP's capex is low in comparison to other large pipelines of a similar age and level of compression. Removing shared capex would result in a

[23] AGIG, *Five year plan for the Dampier Bunbury Natural Gas Pipeline*, pp 71 and 67.

level of investment that is substantially below comparable pipelines. Average capex in the order of $8.5 million per year would not be a reasonable (as required by Rule 74) or provide a level of capex required by a prudent service provider acting efficiency in accordance with accepted good industry practice (Rule 79(1)).

Table 4-5 Average annual capex: shared and direct ($m, $2023)

Pipeline	Capacity (TJ/day)	Length (km)	Compressor stations	Year	Shared	Pipeline	Total
VTS	2,012	1,992	7	1969			70.0
MAPS	241	1,184	8	1969	1.0	14.8	15.8
RBP	336	438	3	1969			16.9
MSP	489	2,001	3	1976	7.2	72.6	79.8
DBP	845	1,539	10	1984			40.8
AGP	145	1,658	1	1986			7.2
QGP	145	807	2	1989	1.6	3.0	4.6
Covered GGP	125	1,378	4	1996	3.9	8.5	12.5
SWQP	453	937	3	1996	13.1	26.6	39.8
CGP	119	840	2	1998	2.3	1.9	4.2
EGP	350	822	4	2000	1.9	20.8	22.7
TGP	129	740	0	2002	-	0.1	0.1
SEA Gas	314	700	2	2004	1.2	0.9	2.1
WGP	1,588	543	0	2014	0.7	2.0	2.8

EMCa observed that we proposed allocating shared capex to the GGP while also continuing to allocate shared opex (which has increased). However, as outlined in section 5.5.5, our opex is also relatively low compared to other large pipelines and shared opex makes up a relatively low share of our total opex.

NGR building block requirements

The National Gas Law sets out that a scheme (covered) pipeline service provider should be provided with a reasonable opportunity to recover efficient costs

The NGL states that:[24]

> *a scheme pipeline 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.*

In turn the Rule 97 allows conforming capital expenditure to be added to the pipeline regulatory asset based and recovered over time. Conforming capital expenditure is expenditure, which is prudent, efficiency, justifiable and properly allocated.

Shared costs such as ITOT, cyber and property all meet these criteria as outlined in Table 4-6.

[24] National Gas Law, section 24.

.

Table 4-6 How shared capex meets the conforming capex criteria

Conforming capex criteria	How shared capex meets this criterion
Prudent and efficient '...as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services in a manner consistent with the achievement of the national gas objective...'	ITOT, cyber security and other shared capex (including property) is prudent expenditure as it is required to provide pipeline services and is incurred by all other pipelines operating in Australia. Procuring these functions through engaging APA and only incurring a small fraction of the overall cost of these processes and systems enables these services to be obtained at the lowest sustainable cost. Procuring these services through a shared function across several assets is almost universal across Australian pipeline businesses.
Justifiable required to achieve specific objectives in the Rules e.g. necessary to maintain or improve the safety of services or help meet emissions reduction targets.	Shared capex is required to maintain the safety and integrity of services as well as to comply with regulatory obligations.
Properly allocated – • Costs directly attributable to reference services are to be allocated to those services. • Costs not directly attributable allocated on a basis, consistent with the revenue and pricing principles, determined or approved by the ERA.	The costs of these functions are allocated to the GGT once based on the total cost APA incurs. Costs are not allocated twice.

4.3.4 Revised Proposal

Our revised proposal has retained shared capex in both AA4 and AA5 as:

- There is no overlap between our historic opex costs and shared capex and in turn no double recovery.
- The expenditure is prudent, efficient, justifiable and properly allocated.

4.4 Cost allocation

4.4.1 GGT initial proposal

For regulatory purposes the GGP is made up of two notional pipelines (covered and uncovered). This requires that capex which supports both covered and uncovered services to be allocated to each of these pipelines.

Table 4-7 shows the how the CAM set by the ERA for AA2, AA3 and AA4[25] compares to our proposed approach for AA5.[26] Our proposal made one change: we proposed to allocate 'all

[25] The ERA set this allocation method in AA3, applied it to AA2 and continued this approach in AA4. See ERA 2019, *Final Decision on Proposed Revisions to the Goldfields Gas Pipeline Access Arrangement for 2020 to 2024,* p.75 Available here and ERA 2015, *Draft Decision on Proposed Revisions to the Access Arrangement for the Goldfields Gas Pipeline,* pp 331-332, 338. Available here.
[26] This excludes the allocation of shared costs incurred by APA and allocated to the GGP which are discussed above.

other capex' based on a proportion of contracted capacity (TJ / day) rather than contracted capacity and distance (TJ x km / day).

Table 4-7 Capex CAM set by the ERA (AA2, AA3 and AA4) and proposed by GGT (AA5)

Capex	AA2, AA3, AA4	AA5
Specific compressor	Covered if the specific compressor forms part of the covered pipeline.	
Compressor stations	Allocation based on the proportion of covered compressor units at that station.	
Distance related assets	Allocation based on the proportion of covered contracted-distance capacity (TJ x km/ day) in the year the expenditure is made.	
All other capex	Allocation based on the proportion of covered contracted-distance capacity (TJ x km/ day) in the year the expenditure is made.	Allocation based on the proportion of covered contracted capacity (TJs/day) in the year the expenditure is made.

Separate to our proposed change to the CAM, we took into account the implications of the commissioning of the Northern Goldfields Interconnect (NGI). This included incorporating cost reductions forecast but not yet realised[27] as well as the higher demand forecast (which reduces tariffs by spreading revenue across larger volumes). These changes were accepted by the ERA (aside from some relatively minor adjustments to the demand forecast).

We did not propose any change to the Cost Allocation *Methodology*[28] as a result of the NGI. However, as the NGI increased the proportion of covered contracted capacity this automatically results in a change to the *allocators* applied.

This change is automatic as the CAM is designed to ensure that costs are fairly and efficiently allocated between covered and uncovered pipeline services based on the extent to which each notional pipeline both causes and benefits from the costs incurred.

Table 4-8 presents the contracted capacity-distance allocator (applied by the ERA's CAM for AA4) compared to the contracted capacity allocator we proposed to apply in AA5.[29] The capacity allocator for AA4 is greyed out as it was not part of the ERA's AA4 CAM for capex.

Although the NGI increased both the capacity and capacity-distance allocators between AA4 and AA5, our proposal to shift from the capacity-distance allocator in AA4 (66%) to a capacity allocator in AA5 (58%) results in a **reduction** to the proportion of costs allocated to the covered pipeline.

Table 4-8 Comparison of shared capex allocators

Description	Basis	AA4	AA5
Capacity Allocator	TJ / day	52%	58%
Capacity-distance allocator	TJ x km / day	66%	70%

[27] For instance, it has enabled us to reduce the level of compression on the GGP and in turn reduce fuel gas, maintenance costs and emissions (and safeguard mechanism compliance costs) See page 21 of Attachment 10.1 of our Initial proposal. Available here.
[28] See paragraph 325 of the ERA's Final Decision on Proposed Revisions to the Goldfield Gas Pipeline Access Arrangement for 2020 to 2024. Available here.
[29] Note that the forecast AA5 allocators in our initial proposal for covered capacity and covered capacity-distance were 61% and 70% respectively. The allocators have been updated to align with our latest demand forecast.

4.4.2 ERA draft decision

The ERA did not accept our proposal on the basis that the commissioning of the NGI has not meaningfully increased GGT's capital cost base, and so there is no justification for customers using covered pipeline services to pay a greater share of the pipeline capital costs.[30]

The ERA noted:[31]

> *As the GGP costs have not changed due to the incorporation of the NGI capacity, there is no underlying driver to base a GGP cost allocation change on and as such, the ERA's view is that there should be no change to the cost allocation factors. The ERA's decision is to keep the cost allocation percentages the same as pre-NGI (Yarraloola only cost allocation factors in Table 4.1 and Table 4.2).*

Consistent with this view the ERA states:

> *… cost allocators have not been applied consistently between AA4 and AA5 in GGP's proposal. In the draft decision, the ERA has changed some of GGT's cost allocation factors to ensure the cost allocation factors are applied consistently.*
>
> *Due to the incorporation of the NGI, GGT proposed pre-NGI (2020 to 2022) and post-NGI (2023 onwards) cost allocators for the capital expenditure cost allocation. … For this draft decision, the ERA has elected to use the pre-NGI cost allocators.*

4.4.3 GGT consideration

The ERA's characterisation that our proposal results in covered pipeline customers '...*pay*[ing] *a greater share of the pipeline capital costs'* is incorrect. We proposed to **reduce** the proportion of costs (not compressor or distance related) allocated to the covered pipeline

The ERA's draft decision is premised on the assumption that it had set a capacity-based allocator in AA4. This is incorrect. The ERA set a capacity-distance allocator to costs[32] incurred in AA2, AA3 and AA4.

Further, while the capacity-distance and capacity allocators have increased as a result of the NGI (although this increase is more than offset by our proposed change to the CAM) this needs to be considered in context. Specifically, that the NGI will lead to an increase to covered contracted capacity and in turn:

- tariffs will be lower than they otherwise would have been (as revenue divided by higher volumes lower tariffs).
- the proportion of services delivered by the covered pipeline (relative to the uncovered pipeline) increases. The covered pipeline will proportionally both cause and benefit from the costs incurred to a larger extent. As a result, consistent with widely accepted regulatory practice, the covered pipeline should be allocated a larger share of costs.

[30] ERA 2024, *Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline Overview.* p.1 Available here.
[31] ERA 2024, *Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline Attachment 4: Regulatory capital base.* p.8 Available here.
[32] Which were not compressor or distance related.

Changes to cost allocators and tariffs need to be considered together

The change to the 'all other capex' allocator cannot be considered in isolation. The allocator only increases[33] if the proportion of covered contracted capacity increases. The covered pipeline as a whole only receives a 'greater' share of costs if it has a higher level of contracted capacity.

In the case of AA5, we are forecasting a higher level of demand. This means individual covered pipeline customers will pay a smaller proportion of costs we incur.

It is not consistent to accept the forecast increase in contracted capacity (which lowers tariffs) but not the consequent change to the allocators (which increases tariffs but by less than the reduction from higher levels of demand).

National Gas Rules and wider regulatory practice

Widely accepted regulatory practice with respect to cost allocation generally consists of:

- Applying cost allocators to costs which cannot be directly allocated to a specific service.
- Applying Cost Allocation Methodology's which, as the AER has articulated,[34] provide a high level 'map' of policies and principles to allocate costs, rather than specifying specific set allocators.
- Requiring costs to be allocated on a causer or beneficiary pays basis. We note that in many cases the 'causer' and 'beneficiary' are the same.
- Considering the practicality, flexibility and materiality of alternative methodologies.

These common elements are illustrated by the range of examples summarised in Table 4-9.

Table 4-9 Relevant examples of Cost Allocation Methodology principles and approaches

Relevant precedent	Summary of approach / principles
Part 9 of the National Gas Rules	Not directly attributable 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.[35]
ERA's CAM for AA2, AA3 and AA4	Non-compressor related costs are allocated to the covered pipeline based on the proportion of covered capacity-distance in the year the expenditure is made.
Part 10 of the National Gas Rules and Chapter 6 &6A of the National Electricity Rules	Costs not directly attributable but which are incurred in providing services must be allocated to the service provider using an appropriate allocator which should: be causation based, except to the extent the cost is immaterial or causal based method of allocation cannot be established without undue cost and effort; and be an allocation that accords with a well-accepted cost allocation method, to the extent that the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort.[36]

[33] In both our proposed Cost Allocation Methodology and the previous Cost Allocation Methodology set by the ERA.
[34] AER 2013, *Rule change proposal – Changes to cost allocation method (ERC0150),* Available here.
[35] National Gas Rule 93(2)(c)
[36] National Gas Rule 103(4), National Electricity Rule 6.15.2(3)(ii) and National Electricity Rule 6A.19.2(3)(ii)

Relevant precedent	Summary of approach / principles
WA's Coordinator of Energy Cost Allocation Review of Market Fees and System Services costs	Cost allocation methods should:[37] Meet Wholesale Market Objectives Be cost-effective, simple, flexible, sustainable, practical, and fair. Provide effective incentives to Market Participants to operate efficiently to minimise the overall costs to consumers Use the causer-pays principle, where practicable and efficient; and If the causer-pays principles is not practicable and efficient, then use the beneficiary-pays principle, where practicable and efficient.
IPART's Cost Allocation Guide	Indirect costs are ideally assigned based on cost drivers (or allocators) which should have cause-and-effect relationship with the indirect cost being incurred. These can be input, output or revenue based. An appropriate allocator is transparent, simple and measurable, with a high degree of correlation between the cost and the allocator. Information for the chosen allocator should also be available without undue cost and effort. Indirect costs may need to be allocated on a non-causal basis if the cost is immaterial, a causal relationship cannot be established, or if there is another economic argument for non-causal allocation (e.g. based on willingness to pay).[38]

In contrast to the ERA's draft decision, none of the above approaches or principles allocate costs on the basis of whether underlying costs change. This is because allocation methodologies apply to costs which cannot be directly allocated to a specific service. If we could directly allocate a cost to a specific service a cost allocation methodology would not need to be applied. Widely accepted regulatory practice is for the allocations to change if the *causer* or the *beneficiary* of the expenditure changes.

In the case of the GGP, the covered and uncovered customers are causers and beneficiaries of the capex incurred as:

- The investments are required to continue to provide covered and uncovered customers with services which means both 'cause' the capex to be incurred.
- The capex enables services to be provided to the benefit of both covered and uncovered customers which means both 'benefit' from the investments made.

The causers and beneficiaries being the same is a common outcome for shared expenditure related to maintaining services.

While the connection of the NGI does not materially change the costs incurred by the GGP, it does change the relative proportion of services delivered by the covered and uncovered pipeline. As a result, the connection of the NGI changes the proportion by which the covered and uncovered customers each *cause* and *benefit* from the capex incurred.

[37] Energy Policy WA 2023, *Cost Allocation Review Information Paper, p.VI* Available here.
[38] IPART 2018, *Cost allocation guide Water Industry Competition Act 2006,* pp. 12-14 Available here.

Adopting specific allocators is also not consistent with regulatory practice. This is because the causer and beneficiary can change over time. Cost Allocation Methodologies are instead applied to allow allocators to flexibility adjust as required.

The application of the ERA's CAM for the GGP is an example of this. Table 4-10 shows the capacity-distance allocator over time. Up until AA4, the allocation of capex to the covered pipeline reduced in line with the change to the covered proportion of contracted capacity-distance. These changes were not associated with any material change in the GGP's cost base.

Table 4-10 Shared capex allocators

Description	Basis	AA2	AA3	AA4	AA5
Capacity Allocator	TJ / day			52%	58%
Capacity-distance allocator	TJ x km / day	80%	70%	66%	70%

It is important to again note that we did not propose to maintain the capacity-distance allocator in AA5. Instead, we proposed to move to the capacity allocator which had the effect of reducing the proportion of costs allocated to the covered pipeline – despite the increase in covered contracted capacity (and contracted capacity-distance).

There is no basis for selecting an allocator based on pre-NGI capacity. If the ERA's position is that the allocator should not change if there is no change in underlying costs, then why not apply the allocator first set in AA2 (80%)?

4.4.4 Revised Proposal

We have maintained our initial proposal approach to cost allocation as it:

- Is largely consistent with the ERA's approach for AA2, AA3 and AA4.
- Ensures that the covered and uncovered pipelines are allocated a proportionate share of costs reflecting the extent to which each pipeline service causes and benefits from the costs incurred.
- Reflects widely accepted regulatory practice and principles such as causer-pays, beneficiary pays, fairness and flexibility.
- Is symmetric and automatic, has a sound basis and is not arbitrary.

4.5 Wiluna ambient temperature

4.5.1 GGT Initial Proposal

Wiluna compression station is the most downstream compression station on the GGP with a criticality rating of extreme.

A reduction in diversity across the pipeline combined with high ambient temperatures in summer and shoulder periods (which reduced the efficiency and power of the compressor) led to a risk that we could not maintain capacity to meet levels of demand. To reduce this risk, we installed inlet air cooling.

We initially only allocated a proportion of these costs to the covered pipeline. However, during the information request process, we identified that we did not apply the allocators set out in the ERA's CAM for AA4 correctly.

The CAM for AA4 does not apply a beneficiary-based allocation approach for compressor capex. Instead, it specifies that:[39]

- Specific compressor costs are covered if the specific compressor forms part of the covered pipeline.
- Compressor station costs are to be allocated based on the proportion of covered compressor units at that station.

As the single compressor at Wiluna is covered, under the AA4 CAM set by the ERA, 100% of these costs are allocated to the covered pipeline.

During the information request process, we noted to the ERA that this project provides benefits to both the covered and uncovered pipeline. We recognised that looking only at Wiluna, this allocation, at first glance, appears unfair. If the whole of the pipeline (covered and uncovered) benefits from the project, why is only the covered pipeline allocated the costs?

However, a complete whole of pipeline view and the ERA's AA4 CAM provides a different story. When initially commissioned in 1996 compression across the pipeline was provided by two compressors each at Yarraloola and Ilgarari. Capacity was expanded in 2001 with the addition of compressors at Wiluna and Paraburdoo. Together these assets make up the covered pipeline.

Further expansions in 2009 (Wyloo West), 2013 (Yarraloola unit 3 and Paraburdoo unit 3) and 2014 (Turee Creek) provided additional compressor units. These assets form the uncovered pipeline.

Table 4-11 Compression across the GGP

Compressor station	Unit	Year installed	Status	Covered?
Yarraloola	Unit 1 – Reciprocating compressor	1996	Standby	Yes
	Unit 2 – Reciprocating compressor	1996	Standby	Yes
	Unit 3 – Turbine	2013	Duty unit	No
Wyloo West	Unit 1 – Turbine	2009	Duty unit	No

[39] Also see Table 4-7.

Compressor station	Unit	Year installed	Status	Covered?
Paraburdoo	Unit 1 – Turbine	2003	Standby	Yes
	Unit 2 – Turbine	2006	Duty unit	No
	Unit 3 – Turbine	2013	Duty unit	No
Turee Creek	Unit 1– Turbine	2013	Duty unit	No
	Unit 2 – Turbine	2013	Duty unit	No
Ilgarari	Unit 1 – Reciprocating compressor	1996	Standby	Yes
	Unit 2 – Reciprocating compressor	1996	Standby	Yes
Ned's creek	Unit 1 - Turbine	2009	Duty unit	No
Wiluna	Unit 1 - Turbine	2001	Duty unit	Yes

Currently, all of the covered compressor units – except for Wiluna – have been placed into standby. This strategy has only been made possible by the addition of uncovered compressor units. This has the effect of reducing covered pipeline capex in two ways. First, by lowering the frequency of overhauls and, second, by reducing the investment in these stations as they reach the end of their design life.

It also means that although the majority of contracted capacity is covered, compression across the GGP is largely provided by uncovered compressor units.

Under the ERA's AA4 CAM, just as 100% of Wiluna unit costs are allocated to the covered pipeline, 100% of capital costs of the duty units at Yarraloola, Wyloo West, Paraburdoo, Turee Creek and Ned's Creek are allocated to the uncovered pipeline.

As a result, the covered pipeline only incurs a minority of compressor related capex. Table 4-12 shows the proportion of rotating maintenance and reliability capex allocated to the covered pipeline. This excludes other capex (such as end of equipment life) which is also affected by these allocators.

Table 4-12 GGP compressor capex ($2023)

Rotating maintenance and reliability capex	AA4	AA5
Total GGP	61.5	31.2
Covered GGP	21.4	8.3
Covered proportion	35%	27%

While the covered pipeline only incurs a minority of the GGP compressor related capex, it receives the majority of the benefits as shown in Table 4-13 below.

Table 4-13 Covered pipeline proportion of costs and benefits of compressor capex

Costs and benefits		AA4	AA5
Benefits	Covered contracted capacity	52%	58%
	Covered contracted capacity-distance	66%	70%
Costs	Proportion of rotating maintenance and reliability capex	35%	27%

The key takeaway here is that it only appears that the ERA's AA4 CAM over-allocates costs to the covered pipeline when a single project is considered in isolation. When the total effect of the CAM is considered across the whole of the GGP the opposite is the case. The ERA's AA4 CAM **under-allocates** capex to the covered pipeline relative to the benefits the covered pipeline receives.

We considered this issue in the development of our AA5 proposal. However, we decided not to propose a change to this element of the ERA's CAM for AA5.

4.5.2 ERA draft decision

Based on advice from EMCa, the ERA did not consider that the Wiluna ambient temperature project was properly allocated. The ERA formed this view on the basis that the project provides benefits to both the covered and uncovered pipeline and costs should be allocated accordingly.[40]

EMCa's report states:[41]

> *We disagree with GGT's rationale in allocating the cost in this way [100% to the covered pipeline] as we consider that GGT is conflating two issues relating to capex allocation:*
>
> - *The benefit that will be derived from the ambient temperature project (which is to both the covered and uncovered services)*
> - *Maintenance of the compressor.*
>
> *We consider that a reasonable basis for allocation of the cost of the project is 61% since covered and uncovered services will benefit from the project.*

4.5.3 GGT Revised Proposal

Allocating compressor capex on a beneficiary-based approach maybe reasonable. However, this is not the methodology the ERA has set for AA4.

The ERA's CAM for AA4 is clear that:[42]

- Compressor unit capex is allocated to the covered pipeline if it is a covered compressor unit.
- Compressor station capex is allocated to the covered pipeline in the ratio of covered pipeline compressor units to the number of compressor units at that station.

The CAM does not distinguish between different types of compressor capex whether it is 'maintenance' capex or otherwise. Accordingly, our revised proposal continues to apply the CAM set by the ERA for AA4.

If the ERA wishes to make an ex-post adjustment to the AA4 CAM by moving to a beneficiary-based allocation approach this change will need to apply to all compressor capex incurred on the GGP – not just projects which are currently 100% allocated to the covered pipeline. This will materially increase covered capex in both AA4 and AA5.

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[40] ERA 2024, *Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline: Attachment 4: Regulatory capital case,* p.16 Available here.
[41] EMCa 2025, *Review of technical aspects of GGT Access Arrangement 2025-29,* p.25 Available here.
[42] See section 4.4.

4.6 GGT response

We have considered the ERA draft decision and concerns raised about aspects of our initial proposal. Where we have not accepted the ERA's draft decision, we have provided further information and clarification.

	ERA DD	GGT response
4.1	GGT must amend its access arrangement information to revise its AA4 forecast capital expenditure to $32.3 million ($ real as at 31 December 2023), consistent with Table 4.6 of Draft Decision Attachment 4.	**Not accepted**, for the reasons outlined in this chapter.
4.2	GGT should update its forecast AA4 capital costs with the latest labour cost escalation update available and provide the ability for the ERA to update this its final decision model.	**Not accepted**. Our capex forecast does not include labour escalation[43] and no further updates are required. We note that adding labour escalation would result in a higher capex forecast.
4.3	GGT must amend its access arrangement information to revise its AA5 forecast capital expenditure to $44.3 million ($ real as at 31 December 2023), consistent with Table 4.11 of Draft Decision Attachment 4.	**Not accepted**, for reasons outlined in this chapter.
4.4	GGT should update its AA5 capital costs with the latest labour cost escalation update available and provide the ability for the ERA to update this in its final decision model.	**Not accepted** as per 4.2.

Further information can be found:

- Attachment 4.1 GGT Capex Coverage Allocation Model – revised – Confidential.
- Attachment 4.2 ITOT project delivery supplementary information– Confidential

To assist the ERA, we have made several updates to the coverage allocation model. The model has been expanded to also include AA4 costs (as reported in our RIN) and to include the shared capex forecast (previously calculated in a separate model) and directly calculate inputs for the Tariff Model.

We have also made changes where we have accepted the ERA's draft decision and to improve the clarity of the model. We would welcome the opportunity to work through the updated model with the ERA.

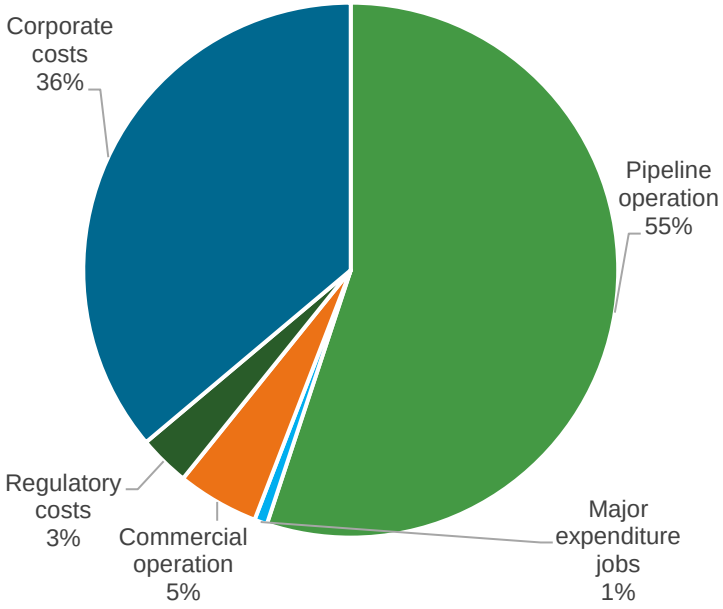
[43] As noted on page 16 of Attachment 10.1 of our initial proposal. Available here.

5. OPERATING EXPENDITURE

5.1 Overview

To ensure the ongoing provision of secure and dependable services to our customers, we propose operating expenditure of $134.8 million for the 2025-29 period.

Our operating expenses are distributed across five key categories. The largest portion is allocated to pipeline operations, encompassing essential daily activities like engineering, field services, administration, and management.



Shared corporate opex encompass various functions and services provided by APA, including information technology, Security of Critical Infrastructure (SoCI) compliance, legal, finance, and other corporate activities. GGP share of these costs is determined through an allocation methodology designed to equitably distribute expenses across all of APA's assets.

Pipeline operations and corporate costs collectively make up 91 per cent of our total forecast operating expenditure for the 2025 to 2029 period.

5.2 Revised proposal

The revised operating expenditure of $134.8 million for the 2025-29 period is $3.5 million (2.7%) higher than actual and estimated operating expenditure in the current period.

This increase can be attributed to rising labour costs related to the maintenance of ageing assets, increased corporate expenses, primarily driven by information technology, and the necessary expenditure to meet new legislative requirements, such as SoCI and the Safeguard Mechanism.

GGT has updated the base year from 2022 to 2023 as it is now the most recent and relevant year to use for the forecast. Accordingly, GGT has updated each expenditure category to use 2023 expenditure. This includes any adjustments.

There is only one new operating expenditure item in 2023 that was not in the 2022 base year, this cost relates to the preparation of the AA5 proposal which has been separately tracked and reported to the other regulatory cost categories. This is discussed in section 5.6.3.

GGT's revised forecast of operating expenditure is provided in Table 5-1. The AA5 forecast has increased by $4 million from the initial proposal. $2.8 million of this increase is due to the reclassification of some SoCI cyber expenditure from capex to opex from the initial proposal (see section 5.7.1). The remaining difference is due to GGT revising the opex base year to 2023 (previously 2022) and updating the labour escalation factor to the most recently available figures.

GGT's revised methodology and response to the ERA's draft decision are discussed throughout this section.

Table 5-1 AA5 forecast operating expenditure ($ million real Dec 2023)

Category	2025	2026	2027	2028	2029	AA5 Total
Pipeline operation	14.7	14.8	14.9	14.9	15.0	74.3
Major expenditure jobs	0.2	0.2	0.2	0.2	0.2	1.0
Commercial operation	1.2	1.3	1.3	1.3	1.4	6.5
Regulatory costs	0.5	0.7	0.8	1.4	0.8	4.2
Corporate costs	10.1	9.9	9.7	9.6	9.6	48.8
Total forecast opex	26.7	26.9	26.9	27.4	27.0	134.8

Table 5-2 provides GGP's AA4 actual and estimate operating expenditure. The 2020 to 2023 figures are actuals, while 2024 figures are estimates. These are shown in December 2023 dollars.

Table 5-2 AA4 actual and forecast operating expenditure ($ million real Dec 2023)

Category	2020	2021	2022	2023	2024*	AA4 Total
Pipeline operation	13.5	16.5	17.4	17.0	17.2	81.6
Major expenditure jobs	0.0	0.3	0.5	0.2	0.2	1.2
Commercial operation	0.6	0.8	0.9	0.7	0.9	3.9
Regulatory costs	0.6	0.5	0.6	1.1	0.5	3.2
Corporate costs	4.8	4.9	7.9	13.5	10.4	41.5
Total forecast opex	19.5	23.0	27.3	32.4	29.2	131.4

5.3 GGT initial proposal

GGT forecast $130.8 million of operating expenditure in the initial proposal. This forecast was estimated using the base step trend (BST) approach with 2022 as the base year, the most recent and audited financial information available at the time of submitting the proposal.

Table 5-3 AA5 forecast operating expenditure – Initial proposal ($ million real Dec 2023)

Category	2025	2026	2027	2028	2029	AA5 Total initial proposal
Pipeline operation	14.8	14.9	15.0	15.1	15.2	75.0
Major expenditure jobs	0.5	0.5	0.5	0.5	0.5	2.6
Commercial operation	1.3	1.5	1.5	1.5	1.6	7.5
Regulatory costs	0.6	0.7	0.8	1.4	0.8	4.4
Corporate costs	8.3	8.3	8.3	8.2	8.2	41.4
Total forecast opex	25.5	26.0	26.2	26.8	26.3	130.8

5.4 ERA draft decision

The ERA's draft decision accepted $109.4 million of GGT's proposed $130.8 million operating expenditure for the AA5 period.

Table 5-4 AA5 forecast operating expenditure – Initial proposal ($ million real Dec 2023)

Category	2025	2026	2027	2028	2029	AA5 Total ERA DD
Pipeline operation	13.3	13.4	13.5	13.6	13.6	67.4
Major expenditure jobs	0.2	0.2	0.2	0.2	0.2	1.0
Commercial operation	1.3	1.5	1.5	1.5	1.6	7.5
Regulatory costs	0.6	0.6	0.7	0.9	0.7	3.4
Corporate costs	6.0	6.0	6.0	6.0	6.0	30.1
Total forecast opex	21.4	21.8	21.9	22.2	22.1	109.4

5.5 Base year

5.5.1 GGT initial proposal

In the initial proposal, GGT applied the base step trend (BST) approach to forecast operating expenditure over the AA5 period. This was consistent with the method used for the AA4 period.

GGT selected 2022 as the base year as it was the most recent year for which complete and audited financial information was available for at the time of submitting the proposal.

GGT made several adjustments to the base year to:

- Account for additional demand in the GGP from the NGI receipt point in AA5;
- Remove non-recurrent expenditure;
- Remove expenditure in the base year with specific forecasts; and
- Remove management fees following APA's acquisition of Alinta's share of the GGP.

GGT included one specific forecast for the SoCI cyber operating expenditure and three step changes for the Safeguard Mechanism carbon costs, ERP program and AA6 regulatory proposal preparation costs.

GGT also applied a labour escalation factor to account for above CPI increases in labour costs over the AA5 period.

5.5.2 ERA draft decision

The ERA made a number of adjustments to GGT's proposed AA5 base year operating expenditure. Each of these amendments are discussed below.

Pipeline operation

This expenditure category covers the costs of the development, operation and maintenance of the GGP and is the largest operating expenditure category. GGT proposed using the 2022 base year pipeline operating expenditure with several expenditure items deemed non-recurrent removed.

The ERA draft decision reduced the pipeline operation base year by an additional $1.4 million dollars. This amount was calculated by removing half of the average difference in costs between the 2017-2021 period from the 2022 base year. This adjustment was made because the ERA did not consider that GGT had adequately justified the sustained increase in costs for engineering and field operations along the GGP in 2022 compared to previous years.

Major expenditure jobs (MEJs)

GGT proposed $0.5 million of MEJ base year expenditure using 2022 as the basis with no adjustments.

The ERA draft decision's accepted $0.19 million of MEJs using an average of the 2017-2021 period rather than 2022.

Corporate costs

GGT proposed base year corporate costs of $7.2 million using the 2022 base year with an adjustment to remove the specific forecast for the SoCI cyber program.

The ERA draft decision only accepted $5.29 million of base year corporate costs. The ERA calculated this amount by using a historic average of 2017 to 2021. The ERA's reasoning was:

- 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.
- 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.[44]

5.5.3 GGT response

Pipeline operation

GGT does not accept the ERA's methodology to adjust the pipeline operations base year and instead has used the 2023 base year (with similar adjustments to the initial proposal). GGT's reasoning is that:

- The ERA's averaging period includes 2017, which has the historically lowest operating expenditure for GGP.
- The ERA averaging period includes both 2020 and 2021, two years heavily impacted by the COVID-19 pandemic where reduced activity occurred along the GGP. No acknowledgement is made by the ERA of this.
- The ERA did acknowledge increased labour costs but did not consider there was sufficient evidence that these 2022 costs would continue. 2023 pipeline operation expenditure, which is now available, is in-line with 2022 expenditure ($0.065 million higher in real terms

[44] ERA 2024, *Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline Attachment 5: Operating expenditure.* p.9 Available here.

excluding the payroll adjustment). GGT considers that the 2023 expenditure supports the proposed amount of field operations expenditure.

Major expenditure jobs (MEJs)

MEJs were higher than forecast in 2022 due to delayed projects along the GGP associated with COVID-19. This is supported by lower than forecast MEJs in 2020. While GGT accepts that MEJs forecast in the initial proposal was perhaps higher than required, it is unclear to GGT why the ERA would use a 5-year historic average that did not include the most recent year of information (2022). If 2022 has been excluded for being too high, why have years such as 2018 and 2020 which are very low been included.

GGT has updated the MEJ base year costs using 2023 as a basis. This results in forecast MEJ's of $0.2 million, which is similar to the ERA's draft decision.

Corporate costs

GGT is part of a larger corporate group, APA, and relies on APA for the provision of a range of corporate functions. The costs incurred in providing these corporate functions are costs attributable to the provision of services using the GGP. Note that the corporate costs discussed in this section are opex costs and that APA also allocates GGP a share of corporate capex in addition to these costs (see section 4.3).

GGT does not accept the ERA's draft decision to reduce the base year corporate costs. GGT again questions why the ERA would use a 5-year historic average that did not include the most recent year of information (2022).

GGT has amended the corporate cost base year forecast to use 2023 information. Noting the increase in costs in 2023, GGT has amended the base year to ensure that they are efficient and reflective of ongoing costs over the AA5 period. These amendments are discussed in further detail later in this section. GGT's revised corporate cost base year is $8.1 million.

The benefits provided to customers of the GGP from these corporate costs is discussed in section 4.3.3.

Adjustments

NGI adjustment

The ERA's draft decision accepted GGT's proposal to adjust operating expenditure allocated based on contracted capacity to account for the increased covered demand introduced by the NGI receipt point.

GGT has applied this same methodology to the 2023 base year, with the adjustment shown in Table 5-5. The allocator used for this adjustment was updated from 60% in the initial proposal to 58% to account for the updated (and lower) demand forecasts for the NGI receipt point over the AA5 period.

Table 5-5 NGI demand adjustment for 2023 expenditure ($million real Dec 2023)

Category	2023	2023 - NGI
Pipeline operation	16.982	17.024
Major expenditure jobs	0.205	0.205
Commercial operation	0.658	0.707
Regulatory costs	1.095	1.095
Corporate costs	13.469	13.469
Total forecast opex	**32.408**	**32.499**

Non-recurring costs

The ERA accepted GGT's proposal to remove four non-recurring costs from the 2022 base year.

Each of these non-recurring costs also in the 2023 base year have been updated accordingly. The comparison of these costs is provided in Table 5-6.

Table 5-6 Non-recurrent expenditure, 2022 and 2023 ($ million real Dec 2023)

Expenditure item	2022	2023
Payroll adjustment	0.593	
Demand side management	0.281	0.104
APA Operations Management Fee	1.056	1.177
APA Commercial Management Fee	1.335	1.378
Total	**3.266**	**2.660**

Specific forecasts

In the initial proposal, GGT removed expenditure from the base year for the SoCI cyber program and instead included a specific forecast. This was the only specific forecast in the initial proposal. The ERA was satisfied with this methodology but excluded it from their base year as the ERA used an average of corporate costs from 2017-2021 in their forecast (prior to the SoCI program beginning).

This expenditure has been removed from the 2023 base year along with costs associated with two of the step changes where there is now expenditure recorded in the base year. This is for the ERP and AA6 regulatory proposal step changes.

Table 5-7 Adjustments to for specific forecast expenditure, 2022 and 2023 ($ million real Dec 2023)

Expenditure item	2022	2023
SoCI cyber	0.756	1.547
ERP	-	2.651
AA5 proposal costs	-	0.579
Total	0.756	4.777

Corporate cost adjustment

As per GGT's cost allocation methodology, GGP is allocated a share of APA corporate costs which benefits all assets (e.g. expenditure related to the operation of assets at the corporate level). GGP, and all APA operated assets, are allocate their share based on their revenue relative to APA's total revenue. Note that the corporate costs discussed in this section are opex costs and that APA also allocates GGP a share of corporate capital expenditure (shared capital expenditure) in addition to these costs (see section 4.3).

Note that no expenditure relating to R&D, business/corporate development or acquisition costs are included in GGP's allocation of corporate costs. These activities have their own cost centres and are completely excluded from the allocation.

It should also be noted that the majority of APA's revenue is generated through bilateral contracts which do not provide for prices to be increased as a result of increased costs. This means that APA that strong commercial discipline to keep corporate costs to a minimum.

Corporate costs allocated to the covered GGP in 2023 were $13.5 million, up from $7.9 million in 2022. This was due to APA building the capability of its business, including strengthening investments in technology and business resilience; regulatory, risk and compliance; sustainability and corporate affairs.

Of note is APA's continued investment in transformation programs including, the implementation of a new enterprise resource planning (ERP) program and SoCI cyber expenditure. This expenditure accounted for $6.1 million of the $13.5 million in 2023. The risks associated with corporate transformation have been identified by APA's risk management framework and are mitigated by:

- Strong governance via an experienced Enterprise Program Management Office; and
- Project/program reporting, risks and issue management and escalation and oversight by senior management and the Board.

As the bulk of transformation expenditure in the 2023 base year has been removed by way of specific forecast (SoCI) and step change (ERP) adjustments, and replaced with lower forecasts, GGT is forecasting this expenditure to reduce over the AA5 period. These adjustments removed $4.2 million of expenditure from the 2023 base year, as shown in Table 5-7.

In addition to the transformation projects, GGT has also reviewed the 'other' corporate costs to understand if 2023 figures are reflective of the AA5 period. GGT has adjusted these costs to be an average of both 2022 and 2023 to smooth out any jumps in expenditure in 2023. 2020 and 2021 were excluded from this average as they were impacted by COVID-19 which disrupted normal operations. This adjustment reduced the base year by $1.2 million, as shown in Table 5-8.

Table 5-8 Corporate costs - other adjustment ($ million real Dec 2023)

Base year	2023	2023 adjusted
Corporate costs – other	7.393	6.207

5.5.4 Revised proposal - 2023 base year

The resulting base year operating expenditure after adjustments is $23.9 million, as provided in Table 5-9. This is $0.4 million higher than the $23.5 million base year expenditure initially proposed. The base year operating expenditure by category is provided in Table 5-10.

In total GGT's adjustment to the base year removed $7.4 million of expenditure from the 2023 base year, a reduction of $37 million of operating expenditure over the AA5 period.

Table 5-9 Base year operating expenditure after adjustments ($ million Dec 2023)

Expenditure item	$ million
2023 opex base year	31.368
Remove separately forecast	
AA5 proposal costs	*0.579*
SoCI cyber	*1.547*
ERP	*2.651*
Remove non-recurring costs	
Demand side management	*0.104*
APA Operations Management Fee	*1.177*
APA Commercial Management Fee	*1.378*
Total	23.931

Table 5-10 Base year operating expenditure by category ($ million Dec 2023)

Opex category	Base year
Pipeline operation	14.523
Major expenditure jobs	0.205
Commercial operation	0.602
Regulatory costs	0.516
Corporate costs	8.085
Total	23.931

5.5.5 Our proposed base year in context

We note that the ERA did not accept our base year opex as it had considered that we had provided insufficient information to either justify that the increase in pipeline operation costs will be sustained or to justify the increase in corporate costs.

We acknowledge the ERA's concerns around cost trends. However, we consider that too much emphasis has been placed on recent cost movements especially in the context of our increasingly complex external operating environment.

In less than 5-years we have experienced COVID-19 pandemics, border closures, shocks to global supply chains, the highest inflation in three decades, an increased focus on emissions, heightened focus on cyber security and the continued trend towards digitisation.

As a result, we consider that the ERA should place greater weight on other information which provides context and helps inform the assessment of our base year costs.

In particular, we consider that the ERA should place significant weight on the commercial incentives we have to achieve the lowest sustainable cost of providing services. As noted earlier,

unlike other regulated businesses, the majority of APA's revenue is generated through bilateral contracts which do not provide for prices to be increased as a result of increased costs.

In addition, to assist the ERA, we have benchmarked our opex base year against other pipelines of a similar scale. This is shown in Table 5-11.

While only indicative – given the differences between pipelines – the benchmarking indicates that despite the recent cost increases we have experienced, our costs remain low compared to other large pipelines. Most pipelines incur higher levels of opex unless they are substantially newer or require lower levels of compression.

Given our relatively low opex costs, we consider that there is sufficient evidence that our proposed base year is consistent with what would be incurred by a prudent service provider acting efficiently to achieve the lowest sustainable cost of delivering pipeline services.[45]

Table 5-11 Proposed base year compared to annual opex of other large pipelines $m, $2023

Pipeline	Capacity (TJ/day)	Length (km)	Compressor stations	Commissioned	Annual opex
VTS	2,012	1,992	7	1969	39.8
MAPS	241	1,184	8	1969	27.9
RBP	336	438	3	1969	26.4
MSP	489	2,001	3	1976	51.7
DBP	845	1,539	10	1984	78.7
AGP	145	1,658	1	1986	15.5
QGP	145	807	2	1989	20.4
Covered GGP	125	1,378	4	1996	23.9
SWQP	453	937	3	1996	59.3
CGP	119	840	2	1998	24.5
EGP	350	822	4	2000	23.9
TGP	129	740	0	2002	7.2
SEA Gas	314	700	2	2004	19.5
WGP	1,588	543	0	2014	21.3

We have also sought to benchmark our corporate opex costs and have considered the data which is publicly available.

Under Part 23 of the National Gas Rules, non-scheme pipelines are required to publish financial information. This includes the expenses split into direct and shared cost categories. Table 5-12 presents the proportion of shared opex reported where available for large pipelines.

The wide range in the proportion of shared opex Table 5-12highlights how each pipeline business is structured differently to suit their individual needs. All but one pipeline allocates a proportion of shared costs as most businesses seek to unlock economies of scale from operating multiple assets.

Table 5-12 highlights that:

[45] Rule 91.

- Efficiency cannot be assessed by evaluating only one part of a pipelines cost stack. A pipeline may have relatively low or high shared costs – but this is more of a measure of which functions are undertaken at the shared versus individual pipeline level rather than efficiency. The resulting overall level of opex is what is important (noting that our total opex costs are low as shown Table 5-11).
- The proportion of the GGP's shared costs over 2020-23 period (29%) is lower than other pipelines which averaged 43% over the same period. This will continue into AA5 where we are forecasting corporate costs to make up 36% of our total forecast opex costs.

Table 5-12 Shared costs as a proportion of opex: large non-scheme pipelines and the covered GGP (2020-23)

Company	Pipeline	Proportion of shared opex
Jemena	EGP	27%
APA	MSP	34%
Epic Energy	MAPS	89%
Jemena	QGP	25%
SEA Gas	SEA Gas	31%
APA	SWQP	51%
Tasmanian Gas Pipeline	TGP	0%
N/A	Average	43%
GGT	Covered GGP	29%

Lastly, we note that the trend towards digitisation and strengthening cyber security has also led other businesses to undertake similar initiatives.[46]

5.6 Step changes

5.6.1 GGT initial proposal

GGT proposed three step changes to the 2022 operating expenditure base year for the AA5 period, as shown in Table 5-13.

Table 5-13 AA5 operating expenditure step changes – GGT proposed ($million 2023)

Step changes	2025	2026	2027	2028	2029	Total
Safeguard mechanism initiatives	0.6	0.7	0.7	0.7	0.8	3.5
AA6 regulatory proposal	0.0	0.2	0.3	0.9	0.3	1.6
Enterprise resource planning (ERP)	0.5	0.4	0.4	0.3	0.3	1.9
Total	1.0	1.3	1.4	1.9	1.4	7.0

[46] Recent examples include JGN's Technology Plan which is forecasting $117.1 million in opex and $70.6 million in capex, Dampier to Bunbury Gas Pipeline's $63.9 million of forecast IT and OT capital projects for AA6, and SA Power Networks $47.6 million in opex over 2025-30 for its Cyber security uplift program.

5.6.2 ERA draft decision

The ERA's draft decision accepted $4.1 million of the $7 million proposed step changes by GGT. The step change for the Safeguard Mechanism initiatives was accepted in full, while only part of the AA6 regulatory proposal costs were accepted and none of the costs for the ERP step change were accepted.

Table 5-14 AA5 operating expenditure step changes – ERA draft decision ($million 2023)

Step changes	2025	2026	2027	2028	2029	Total
Safeguard mechanism initiatives	0.6	0.7	0.7	0.7	0.8	3.5
AA6 regulatory proposal	0.0	0.1	0.1	0.3	0.1	0.6
Enterprise resource planning (ERP)	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.6	0.8	0.8	1.0	0.9	4.1

AA6 regulatory proposal

The ERA's draft decision accepted in part the step change for the AA6 proposal. The ERA's reasoning for reducing the step change were:

- 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.
- 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.
- 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. [47]

GGT does not accept the ERA's draft decision to reduce the step change for the AA6 regulatory proposal costs and has provided additional evidence to support the step change in the revised proposal.

Enterprise resource planning (ERP) program

The ERA's draft decision rejected the ERP step change in full. The ERA's reasoning was:

- 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.

[47] ERA 2024, *Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline Attachment 5: Operating expenditure.* p.12 Available here.

- 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.

5.6.3 GGT response

GGT's revised proposal maintains the three step changes in full, as initially proposed.

Table 5-15 AA5 operating expenditure step changes – GGT proposed ($million 2023)

Step changes	2025	2026	2027	2028	2029	Total
Safeguard mechanism initiatives	0.6	0.7	0.7	0.7	0.8	3.5
AA6 regulatory proposal	0.0	0.2	0.3	0.9	0.3	1.6
Enterprise resource planning (ERP)	0.5	0.4	0.4	0.3	0.3	1.9
Total	1.0	1.3	1.4	1.9	1.4	7.0

AA6 regulatory proposal

Regulatory preparation costs

In the 2022 base year, there were only two expenditure items under regulatory costs:

1. ERA standing charges
2. GGT regulatory costs

In 2023, GGT separated costs relating to the preparation of the AA5 access arrangement and recorded them as their own line item. GGT has also provided the ERA a detailed breakdown of the costs which make up the AA5 proposal. These costs have been removed from the base year to ensure there is no double counting (see Table 5-7).

The AA5 preparation costs were $579,000 in 2023, which is the fourth year of the AA4 period. The equivalent year for preparing the AA6 proposal would be 2028, where GGT has proposed expenditure of $850,000. This means that GGT is asking for an additional $271,000 for AA6 in this equivalent year. GGT considers this reasonable once factoring in costs included in the step change that aren't captured in 2023's costs. These costs include:

- Stakeholder engagement and reports
- Legal compliance fees (GGT did get an external legal compliance review of the initial proposal, but these costs were incurred in January 2024, so are not included in the $579,000).
- Technical support – Capex/SIB – Consultant costs were incurred in 2023 but no internal labour costs were recorded.

Other regulatory costs

No amendment has been made to the base year to adjust for the other regulatory costs, the 'ERA standing charges' or the 'GGT regulatory costs'. The ERA standing charges will continue over the AA5 period. The remaining costs recorded under GGT regulatory costs are required to

cover annual RIN reporting, including external review costs, and BAU regulatory support throughout the period.

Enterprise resource planning (ERP) program

GGT does not agree with the ERA's draft decision. To ensure that there is no double counting of ERP costs, we have removed the ERP related costs from the 2023 base year costs. We have replaced the actual costs with the forecast in the initial proposal ($1.9m). The ERP step change is based on forecast provided in GGT's initial proposal.[48] This was based on best available forecast of ongoing costs. This forecast step change is lower than the actual 2023 ERP cost.

ERP (Workday) was implemented across APA in April 2024.

5.7 Specific forecasts

5.7.1 SoCI cyber

APA's enterprise-wide Protected Security program is driven by amendments to the *Security of Critical Infrastructure Act 2018* (the SoCI Act). APA engaged a third-party expert (EY) to conduct a gap analysis of APA's ability to meet the revised SoCI Act obligations, identify uplift needs and assist in the design of an appropriate suite of security controls.

To comply with the SoCI Act APA is:

- Working to achieve a defined maturity level as set out in the Australian Energy Sector Cyber Security Framework (AESCSF). (The AESCSF is the standard to be applied across the electricity and gas sectors to manage cyber security hazards).
- Amending personnel and supply chain standards and procedures from a security perspective, including the introduction of an AusCheck screening process for new and ongoing critical workers, employees or contractors, and supplier security risk assessments.
- Identifying and remediating material risks.

In the initial proposal, GGT included a forecast for the SoCI cyber program that was broken down into capex and opex. The capex component was included under GGT's shared support capex category while the opex component was included as a specific opex forecast. The opex component represented the actual expected operating expenditure of the program, allocated to GGP based on relative revenue and was not a 'corporate charge' to GGP for the service.

The total SoCI cyber expenditure proposed in the initial proposal was $7.5 million for the AA5 period. The ERA accepted in full the SoCI cyber opex component of $3.7 million but rejected the $3.8 million capex component entirely. GGT's considers this was due to a misunderstanding of how APA corporate costs are allocated to each asset (see section 4.3.3). GGT considers that all this expenditure is eligible under NGR r. 79 and r. 91.

[48] Refer to GGT response to information request EMCa08 including model 'GGP AA - ITOT - EMCa08'.

Accounting adjustment

After observing actual SoCI cyber spend in 2023, as provided to the ERA in the May 2024 regulatory information notice (RIN) submission, against the EY forecast GGT observed that a higher amount of expenditure was being expensed (opex) rather than capitalised (capex) than initially forecast. The total expenditure for 2023 ($1.8 million) was similar to forecast ($1.9 million).

This change was from APA finance's treatment of this expenditure, which they interpreted to be operating expenditure rather than capital expenditure. This is in-line with the latest accounting standards on IT expenditure.

In response, GGT has decided to adjust the ratio of forecast capex and opex using the actual 2023 capex and opex for SoCI cyber. As shown in Table 5-16, no change has been made to the total forecast, only the accounting treatment of this expenditure. This will ensure that the forecasts for the AA5 period will match APA's internal treatment of this expenditure. The associated reduction in capex can be seen in Table 4-3.

GGT maintains that all the SoCI cyber expenditure should be included in the AA5 forecast regardless of whether it is considered opex or capex.

Table 5-16 SoCI cyber adjustment of capex and opex ($ million real Dec 2023)

SoCI cyber adjustment	2025	2026	2027	2028	2029	Total
Capex – initial proposal	1.1	0.9	0.7	0.6	0.6	3.8
Opex – initial proposal	0.7	0.7	0.8	0.8	0.8	3.7
Total	1.8	1.6	1.4	1.3	1.3	7.5
Capex – revised proposal	0.2	0.2	0.2	0.2	0.2	1.0
Opex – revised proposal	1.5	1.4	1.2	1.1	1.1	6.5
Total	1.8	1.6	1.4	1.3	1.3	7.5

5.8 Trends in costs

5.8.1 GGT initial proposal

GGT proposed a labour escalation factor of 0.67% using a 4-year average of the Western Australian Treasury Consumer Price Index (CPI) and Wage Price Index (WPI) forecasts from 2023/24 to 2026/27. This average excluded the 2022/23 forecasts as GGT did not consider the high inflation of this year to be representative of forecast labour growth over the 2025-29 period.

Applying the labour escalation to the 2022 base year labour expenditure resulted in proposed labour escalation of $2.51 million for the AA5 period.

5.8.2 ERA draft decision

The ERA did not accept GGT removing the 2022/23 forecast figures from the labour escalation calculation as their preferred method is a 5-year average. However, since GGT submitted the proposal in 2023, the Western Australian Treasury has provided updated real and forecast data

from 2023/24 to 2027/28. The ERA updated the labour escalation factor using this data and applied a factor of 0.58% in the draft decision.

5.8.3 GGT response

GGT accepts the updated labour escalation factor calculated by the ERA in the draft decision. Table 5-17 displays the updated methodology, the Fisher equation has been used to calculate the factor using the WPI and CPI averages.

Table 5-17 Labour escalation factor methodology

Labour escalation factor methodology	2023/24 budget	2024/25 outyear	2025/26 outyear	2026/27 outyear	2027/28 outyear	Average
WA WPI growth	4.25%	3.75%	3.50%	3.00%	3.00%	3.50%
Perth CPI growth	4.00%	3.00%	2.50%	2.50%	2.50%	2.90%
Labour escalation factor						0.58%

GGT has updated the proportion of expenditure which was labour-related based on 2023 actuals to match the updated base year used for the opex forecast. Labour operating expenditure was slightly lower in 2023 ($14.5 million) than 2022 ($14.8 million). GGT has adjusted the 2023 proportion by the labour escalation factor to calculate the total labour escalation for the AA5 period. This results in $1.7 million of labour escalation for the AA5 period, $0.8 million than initially proposed. This is due to a lower escalation factor than initially proposed, but also because of less indexing of the labour escalator from updating the base year from 2022 to 2023.

Table 5-18 GGP labour cost calculation

Labour escalation	2023	2024	2025	2026	2027	2028	2029	Total
Labour cost escalator	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	N/A
Index	1.000	1.006	1.012	1.018	1.024	1.029	1.035	N/A
Labour cost ($ million)			0.170	0.255	0.341	0.428	0.515	1.709

5.9 GGT revised proposal

GGT revised opex forecasts for the 2025-29 period applies the BST approach with 2023 as the base year. While we acknowledge GGP opex increased from historic levels, in the case of opex for GGP we do not consider historic costs to be a good indicator of future requirements.

GGT does not consider it appropriate for ERA to use a 5-year historic average that did not include the most recent year of information. The averaging period includes both 2020 and 2021, two years heavily impacted by the COVID-19 pandemic where reduced activity occurred along the GGP.

The benchmarking information provided in section 5.5.5 indicates that despite the recent cost increases we have experienced, our costs remain low compared to other large pipelines. Most pipelines incur higher levels of opex unless they are substantially newer or require lower levels of compression.

Given our relatively low opex costs, we consider that there is sufficient evidence that our proposed base year is consistent with what would be incurred by a prudent service provider acting efficiently to achieve the lowest sustainable cost of delivering pipeline services.

Table 5-19 AA5 forecast operating expenditure ($ million real Dec 2023)

Forecast operating expenditure	2025	2026	2027	2028	2029	AA5 Total
Starting: Base year operating expenditure	**23.9**	**23.9**	**23.9**	**23.9**	**23.9**	**119.7**
Add: Separate forecast						
SoCI cyber	1.5	1.4	1.2	1.1	1.1	6.5
Equals: Baseline forecast operating expenditure	**25.5**	**25.3**	**25.2**	**25.1**	**25.1**	**126.1**
Add: Step changes						
Safeguard mechanism initiatives	0.6	0.7	0.7	0.7	0.8	3.5
AA6 regulatory proposal	-	0.2	0.3	0.9	0.3	1.6
Enterprise resource planning (ERP)	0.5	0.4	0.4	0.3	0.3	1.9
Add: Real labour cost escalation						
Labour cost escalation	0.2	0.3	0.3	0.4	0.5	1.7
Total forecast opex	**26.7**	**26.9**	**26.9**	**27.4**	**27.0**	**134.8**

Further information can be provided:

- GGP AA5 Attachment 5.1 - Opex model - revised - Public

6. TARIFF VARIATION

6.1 GGT proposal

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.

The current access arrangement lists two cost pass-through events change in law, and tax changes.

To mitigate new and emerging risks, we proposed additional cost pass through events for high cost events that could not have reasonably been foreseen nor forecast ahead of time. Our additional cost pass through events were natural disasters, carbon cost, terrorism, insurance coverage event, insurer credit risk event, and regulatory change event.

6.2 ERA draft decision

The ERA accepted three of the proposed cost pass-through events - natural disasters, carbon cost, and terrorism.

ERA noted that the occurrence of extreme weather events in Australia in recent years has been notable. Additionally, terrorism remains a threat to infrastructure assets following various data breaches of service companies in Australia. For these reasons, the ERA considers that GGT's proposal to include cost pass through events to cover natural disasters and acts of terrorism to be reasonable. ERA agreed to include carbons cost events but with modification to the definition.

The ERA clarified that a cost pass through event variation mechanism is not designed for complex cost assessments. 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.[49] ERA considered that GGT's proposal to include insurance related cost pass through events is unworkable.

6.3 GGT response

GGT considers that the ERA draft decision is reasonable and allows GGT to be better manage the risk of unforeseen events.

ERA draft decision		GGT response
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.	Accepted
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".	Accepted

[49] ERA draft decision, Attachment 3 – Revenue and tariffs, para. 27.

ERA draft decision		GGT response
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).	Accepted
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.	Accepted
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.	Accepted
3.8	GGT must delete the "regulatory change event" from Section 4.5.2(c) of the proposed access arrangement.	Accepted
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.	Accepted

6.4 GGT revised proposal

We have accepted the ERA's draft decision regarding cost pass through events. Our revised proposal includes additional cost pass through events for natural disasters, carbon cost, and terrorism in addition to the incumbent change in law, and tax changes.

We have amended the materiality threshold and timelines required by the ERA in the draft decision and timeframes for ERA consideration of the new cost-pass through events.

Further information can be found in:

- GGP AA5 Proposed revised Access Arrangement
- GGP AA5 Access Arrangement Information

7. ACCESS AND QUEUING

7.1 GGT proposal

GGT proposed to amend the queuing provisions in the GGP access arrangement. The key objective of the proposed amendments is to simplify the provisions and ensure that they are commercially fit for purpose. We proposed to introduce prudential requirements during the offer and acceptance stages of the queuing process.

Our proposal was to better align the queuing provisions in the GGP access arrangement with the access and queuing provisions in the NGR.

7.2 ERA draft decision

ERA considered that GGT's amended queuing requirements improved the readability and understanding of the requirements for access to services and the requirements for queuing when access to services cannot be provided.

ERA acknowledged that amended queuing requirements also better align with the queuing requirements set out in the National Gas Rules.

However, the ERA identified further amendments that must be addressed to further clarify certain provisions and/or address drafting errors. Subject to GGT addressing the ERA's required amendments, the ERA conditionally approves the access and queuing requirements in Section 5 of the proposed access arrangement.

7.3 GGT response

GGT has accepted the ERA's draft decision and amended the access arrangement accordingly.

ERA draft decision		GGT response
8.1	GGT must amend Section 5.2 of the access and queuing requirements to add a new provision to confirm that if the existing user responds to the service provider's request for continuation of service information to confirm that it does not intend to extend its gas transportation agreement, the service provider may treat the user's capacity as spare capacity at the expiry of the user's agreement.	Accepted
8.2	GGT must amend Section 5.5.1(b) of the access and queuing requirements so that the requirement to meet any prudential requirements is limited to those that are reasonably necessary to lodge a registration of interest. To assist with clarity, GGT should provide examples of the types of prudential requirements that may be specified.	Accepted
8.3	GGT must include a provision in Section 5.5 of the access and queuing requirements to confirm what happens to a registration of interest after 12 months from receipt of the registration of interest by the service provider.	Accepted
8.4	GGT must amend Section 5.6 of the access and queuing requirements to change the heading from "Service Provider can provide service with Spare Capacity" to "Spare Capacity", which better reflects the provisions of this section.	Accepted
8.5	GGT must correct the drafting error in Section 5.7(a) of the access and queuing requirements so that the drafting reads "… 30 Business Days after the date specified in the Spare Capacity Notice (access request date)".	Accepted

ERA draft decision		GGT response
8.6	GGT must amend the access and queuing requirements to confirm the information required when notifying prospective users (under Section 5.8.3(d)) as to whether they were allocated any spare capacity in an auction, and the regulator (under Section 5.8.3(e) of the outcomes of a Spare Capacity Notice and Auction for Spare Capacity. As a minimum, the information required must be such as to enable a prospective user to determine the prospective user's position in the queue, the order of which was determined by prioritising the auction bids based on the criteria set out in Section 5.8.3(b).	Accepted
8.7	GGT must correct the drafting error in Section 5.8.1(d)(iii) of the access and queuing requirements to remove the words “For example, terms that … compared to standard Terms & Conditions” (these words should form part of the new drafting in Section 5.8.1e)). GGT must also correct the drafting error in Section 5.8.3(e) to refer to the “Spare Capacity Notice” (not “Notice of Spare Capacity”).	Accepted
8.8	GGT must correct the drafting error in Section 5.9(b) of the access and queuing requirements to change the reference to “Capacity Queue” to “Capacity Deposit”.	Accepted
8.9	GGT must delete proposed Section 5.10 of the access and queuing requirements, unless GGT can confirm that this section is only relevant in relation to an access request made under Section 5.1 and access offer made under Section 5.3.2.	Accepted

7.4 GGT revised proposal

GGT has amended the access arrangement to align with the ERA draft decision on access and queuing provisions.

Further information can be found in:

- GGP AA5 Proposed revised Access Arrangement (tracked)
- GGP AA5 Proposed revised Access Arrangement (clean)

8. OTHER MATTERS

8.1 Pipeline description

8.1.1 GGT proposal

Rule 48(1)(a) of NGR states that a full access arrangement must identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected.

GGT's initial proposal complied with this requirement. The GGT initial proposal overview identified the GGP and had a link to the APA GGP webpage.

The information on the webpage includes a diagram, description, ownership details, commercial, and regulatory information.[50]

8.1.2 ERA draft decision

In the ERA draft decision, the ERA suggested GGT should amend the pipeline description to include kilometre reference points for each receipt and delivery point on the pipeline.[51]

8.1.3 GGT response

GGT considers that the information provided on the GGP webpage meets the requirements of the NGR and that no further information needs to be provided.

8.2 T&C definitions

8.2.1 GGT proposal

The GGP access arrangement includes definition sections that apply to the reference service terms and conditions.

8.2.2 ERA draft decision

ERA suggested that GGT should consider amending the structure of the proposed access arrangement to incorporate the definitions that apply to the reference service terms and conditions into those terms and conditions (i.e. existing Schedule T (C1 Definitions and

[50] APA GGP webpage goldfields gas pipeline | APA Group

[51] ERA Draft Decision 1.1.

Interpretation) should form part of Schedule D (Terms and Conditions applying to the Firm Transportation Service).

8.2.3 GGT response

GGT has not made the change suggested by the ERA. The access arrangement is a complex document and difficult to amend. GGT will consider this for future access arrangement revisions.

GLOSSARY

Term	Definition
AA	access arrangement
access arrangement period	means the period during which the proposed revisions are to apply; this period is expected to be 1 January 2025 to 31 December 2029
ACCU	Australian Carbon Credit Unit
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
APA	APA Group
CAM	cost allocation methodology
capex	capital expenditure
covered pipeline	refers to the parts of the GGP which are covered under the NGL
CPI	consumer price index
DBP	Dampier to Bunbury Natural Gas Pipeline
DCCEEW	Department of Climate Change, Energy, the Environment and Water
earlier access arrangement period	means the period during which the current access arrangement is expected to apply; this period is expected to end on 31 December 2024
ERA	Economic Regulation Authority Western Australia
G&T	Gilbert and Tobin Lawyers
GEA	gas engine alternator
GGP	Goldfields Gas Pipeline
GGT	Goldfields Gas Transmission Pty Ltd
GGT JV	Goldfields Gas Transmission Joint Venture
IOC	APA's integrated operations centre
ITOT	information technology and operational technology
MRP	market risk premium
NGI	Northern Goldfields Interconnect
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
opex	operating expenditure
SL CAPM	Sharp-Lintner Capital Asset Pricing Model
SoCI	Security of Critical Infrastructure or *Security of Critical Infrastructure Act 2018*
SMC	Safeguard Mechanism Credit
WACC	weighted average cost of capital
WPI	wage price index

APPENDIX A – SUMMARY OF REVISIONS TO ACCESS ARRANGEMENT

Section of revised AA	Description of change
Cover page	Amended name of document and date
Throughout AA	Change name of reference service from “Firm Service” to “Firm Transportation Service”
s.1.2	Add information about Northern Goldfields Interconnect
s.1.3	Updated ownership. Add information about APA’s acquisition of Alinta Energy GGT Pty Limited
s.1.4	Updated ownership. Minor edit
s.1.7	Amend ‘Review Submission Date’ and ‘Revisions Commencement Date’
s.1.9	Amended name and description on section 5
cl.2.1.2	Change name of section 5 from ‘Queuing’ to ‘Access and Queuing’
cl.2.2.1	Minor edit
cl.2.2.1(d)	Amend to clarify reference to Yarraloola receipt point
cl.2.2.1(e)	New clause referring to new receipt point at Northern Goldfields Interconnect
s.3.5	Amend date for establishing opening capital base
s.3.6	Update to speculative expenditure account balance
cl.4.1.4	Minor edits
cl.4.5.2	Extensive amendments to Cost Pass-through Reference Tariff Variation Mechanism
s.4.6	Amend dates
s.5	Change name of section from ‘Queuing’ to ‘Access and Queuing’ Add overarching clause Extensive changes to section 5 reflecting ERA draft decision
s.5.1	Amend access request provisions to align with NGR Rule 112
s.5.2	5.2 Information from existing Users New section allowing Service Provider to seek ‘continuation of service information’ from Prospective User in relation to understanding potential spare capacity
s.5.3	Service Provider obligations after receiving access request from Prospective User Remove reference to ‘spare capacity’ and ‘developable capacity’. Align with NGR Rule 112

Section of revised AA	Description of change
s.5.4	Prospective User response to access proposal Minor amendments to align with
s.5.5	Registration of interest Add provision allowing Service Provider to invite Prospective Users to lodge registration of interest for a service Add provisions that the lodged registration of interest must be signed by CEO or CEO delegate
s.5.5.2	Remove clauses (iii) to (v) which duplicate the process set out in s.5.3
s.5.5.3	Service Provider to keep registrations of interest for Services under review Refer to procedure for developable capacity in section 5.7.
s.5.6	Service Provider can provide service with spare capacity • Remove 2TJ/day spare capacity threshold (old clause 5.4) • Expand requirement for Service Provider to provide Spare Capacity Notice to registered Prospective Users • Amend obligations about publication of Spare Capacity Notice • Clarify that Spare Capacity Notice will invite expressions of interest • Add that Service Provider can specify criteria
s.5.7	Expressions of Interest met with available spare capacity • Minor amendments • Remove duplication of Service Provider and Prospective User obligations relating an access proposal that are set out in clauses 5.3 to 5.4.
s.5.8	Expressions of interest not met by Spare Capacity • Minor edit to title of clause
cl.5.8.1(c)(iii)	Add provisions to allow Prospective User to engage with Service Provide to discuss potential terms and conditions
cl.5.8.1(d)	Add examples of terms that may not be acceptable to the Service Provider
cl.5.8.2	If complying bids do not exceed Spare Capacity • Add provision that Service Provider may engage with Prospective Users who have lodged a bid in response to a Notice of Auction for Spare Capacity
cl.5.8.3	Minor edits to refer to new clauses New provision allowing Service Provider to request a Prospective User to provide a Capacity Deposit.
cl.5.8.3(e)	New provision requiring Service Provider will inform the Regulator, in writing, about the outcomes of the Notice of Spare Capacity and, if relevant, the Notice of Auction for Spare Capacity.
cl.5.8.4	Amend to allow Service Provider to set a floor price in addition to a reserve price.

Section of revised AA	Description of change
Cl 5.9	Capacity deposit requirements added
cl.5.11(b)(ii)	Minor amendments to requirements to publish a notice of developable capacity
cl.5.11.3	New clause allowing extensions to the periods specified in the provisions relating to developable capacity
cl.5.11.4	Amend provision to refer to section 7.1 to remove duplication of provisions.
Title	Add title page for Schedules
Schedule A Details	Amend Reference Tariff Rates
	Contact details - updated
	Scheduled Reference Tariff Variation Mechanism • Add information about the 2022 Rate of Return Instrument
	Limits on varied Reference Tariff Components • Update dates • Update placeholder inflation
Schedule B	Amend to title of Registration of Interest to remove reference to spare or developable capacity
	Include requirement for signature by CEO / CEO delegate and date
Definitions	Spare capacity - amend references to clauses in the access arrangement
	Receipt Point – add Northern Goldfields Interconnect
	Relevant date – amend
	Spare Capacity Notice - amend references to clauses in the access arrangement
	Spare Capacity Register - delete
Definitions	Relevant date – amend
C Definitions	Added definition of Accumulated Imbalance Charge
T C1 Definitions and Interpretation	Added definition of Accumulated Imbalance Charge
	Spare Capacity Notice - amend references to clauses in the access arrangement
	Spare Capacity Register - delete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