Economic Regulation Authority

Final decision on access arrangement for the Goldfields Gas Pipeline (2025 to 2029)

Attachment 4: Regulatory capital base

18 December 2024

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Note

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

- Final decision on access arrangement for the Goldfields Gas Pipeline (2025 to 2029) – Overview, 18 December 2024:
  - Attachment 1: Access arrangement and services
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Attachment 4. Summary

The setting of the capital base is an important step in determining two elements of the revenue required by GGT to operate and maintain the Goldfields Gas Pipeline (GGP): the return on the capital base; and the return of the value of the capital base over time (depreciation).[1]

The regulatory framework requires the roll forward of the capital base from the current access arrangement period (AA4) to the new access arrangement period (AA5). The actual capital expenditure incurred during AA4 is reviewed by the ERA and, once accepted, is added into the capital base going forward and used to set the opening capital base for AA5. As the actual capital expenditure for the last year of the current access arrangement period (2024) is not known before the publication of this final decision, there will be an adjustment for any under, or over, forecast expenditure when the next (AA6) access arrangement assessment is carried out.

The projected capital base for AA5 is important for setting reference tariffs during the period and so must reflect the best possible forecast of prudent and efficient investment and allow for an appropriate amount of depreciation.

Information provided by GGT and findings from the ERA's technical consultant have been considered to determine the amount of capital expenditure that meets the requirements of the National Gas Rules (NGR).

The ERA has assessed GGT's proposed actual and forecast capital expenditure for AA4 and AA5 in accordance with the NGR using a three-step framework:

- Consider whether the expenditure is justifiable under the various statutory criteria (economic, incremental revenue, safety, integrity).
- Evaluate whether the expenditure would be undertaken by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services consistent with the national gas objective.
- Assess whether forecasts or estimates have been arrived at on a reasonable basis and do they represent the best forecast or estimate possible in the circumstances.

The key considerations in this final decision, which either change or maintain the ERA's draft decision position, are as follows.

Stay-in-business capital expenditure

GGT's revised proposal for AA4 stay-in-business capital expenditure was $42.0 million (compared to the ERA's draft decision amount of $32.3 million). This final decision accepts GGT's revised amount without change after considering further information provided by GGT, which provided explanations for increased costs for the Wiluna project and for gas engine alternator upgrades at Yarraloola.

For AA5, GGT has revised its proposed forecast stay-in-business capital expenditure to $43.5 million (compared to the ERA's draft decision amount of $44 million). Having considered GGT's reasons for specific changes, the ERA has accepted GGT's revised proposal, which is $0.5 million less than the approved draft decision amount.

[1] The ERA's consideration of the return on the capital base and the return of the capital base (depreciation) is covered in Final Decision Attachments 7 and 6, respectively.

AA4 (actual) shared capital expenditure

GGT's initial proposal included $30.4 million of shared capital expenditure, which represents a share of assets purchased by its parent company, APA Group, to provide services across the APA Group portfolio of businesses. No shared expenditure was proposed in the initial or revised proposals during the AA4 process.

In its draft decision, the ERA determined that the expenditure was not permitted capital expenditure incurred by GGT and should have been accounted for as operating expenditure. Additionally, GGT did not demonstrate that the expenditure was not already covered by increased APA Group corporate operating costs. Among these costs, was an APA Group charge to GGT for operating expenditure, which covered corporate and management services, such as information technology and leased assets.

GGT rejected the ERA's draft decision and provided additional information for consideration. GGT also revised the amount of shared capital expenditure for AA4 to $26.5 million, following adjustments to cyber security costs and the use of actual expenditure data for 2023 and some months of 2024.

The ERA has considered the additional information provided by GGT and advice from the ERA's technical consultant and is satisfied that GGT does not recover APA Group capital costs through the operational APA Group charge. However, the ERA's final decision is to disallow GGT's proposed AA4 shared capital expenditure. The ERA maintains its draft decision position that these costs (which for GGT are approximately six per cent of APA Group's related capital costs) should be treated as operating expenditure and should have therefore been accounted for as AA4 operating expenditure during the AA4 approval process.

The reasons for the ERA maintaining this position are set out in the details of this attachment. In summary, the ERA's considerations included:

- Parent company assets remain assets of the parent company and not the regulated entity. Consequently, if the regulated business is sold after such assets have been added to the capital base, the assets would remain on the regulated asset base despite the pipeline services no longer deriving any benefit from these assets.
- Over time, if the parent company's asset is used differently by the subsidiaries, including the regulated entity, then the regulated entity's share of cost recovery should change. Treating it as a capital asset will fix the allocation at the current allocation.
- The position is analogous to the previous treatment of parent company management fees. APA charged, and the ERA approved, management fees as operating expenditure in AA4 and previous access arrangements. GGT has noted that these fees were not based on costs and could reasonably be considered as margins or on costs that contributed to APA's investment in its corporate infrastructure.
- GGT has already moved to expense more cyber security expenditure than its initial proposal. "Software as a service" is an operating cost in the parent company accounts.
- The ERA notes that the AER has accepted an allocation of shared capital expenditure in previous access arrangement decisions for APA owned pipelines. The ERA further notes that in the Dampier to Bunbury Natural Gas Pipeline access arrangement it accepted shared capital expenditure for a discrete IT security project of $2.4 million. However, this one-off shared project allocation is very different to GGT's proposed approach to the on-going allocation of a diversified and extensive list of corporate capital expenditure from the parent entity. For the reasons noted above, the ERA considers that these costs should be treated as operating costs.

AA5 (forecast) shared capital expenditure

GGT proposed $15.9 million of shared capital expenditure for AA5, which represents a share of assets purchased by its parent company APA Group to provide services across the APA Group portfolio of businesses. The ERA's draft decision disallowed this expenditure because it does not constitute capital expenditure within the NGR and should be accounted for as shared AA5 operating costs.

GGT rejected the ERA's draft decision and in its revised proposal reduced the amount of AA5 shared capital expenditure to $12.8 million. GGT's revised amount is the result of updated forecasts for "other" shared capital expenditure and adjustments to cyber security costs by capitalising a smaller proportion of these costs.

The ERA's final decision is to not approve GGT's forecast for AA5 shared capital expenditure for the same reasons outlined above (in relation to AA4 shared capital expenditure). The ERA has determined that $10.3 million of GGT's proposed $12.8 million shared capital expenditure represents efficient operating expenditure. This has been added to the AA5 operating costs and, for this access arrangement review, will be expensed in the year incurred.

Cost allocation with Northern Goldfields Interconnect (NGI)

GGT proposed a change to the capacity allocators – 'capacity' and 'capacity-distance' – due to the interconnection of the NGI, with the proposed change to apply to both AA4 (for the years 2023 and 2024 only) and AA5.

The ERA's draft decision noted that cost allocators only apply to shared GGP costs and are based on the drivers of those pipeline costs (for example, an additional compressor on the GGP, which increases the pipeline costs and capacity, would result in an increase of shared compressor related capital expenditure to the covered GGP). The NGI costs are borne by the NGI and as per GGT's proposal, the interconnection of the NGI has no meaningful impact on GGP costs. As the GGP costs have not changed due to the interconnection of the NGI capacity, there was no underlying driver to base a GGP cost allocation change on and as such, the ERA decided that there should be no change to the cost allocation factors. The ERA's draft decision kept the cost allocation percentages the same as "pre-NGI" (that is, prior to the interconnection of the NGI).

GGT's revised proposal rejected the ERA's draft decision. GGT submitted that it was not consistent for the ERA to accept the forecast increase in contracted capacity on the GGP but to not accept the consequent change to the allocators.

While the ERA notes that there is no meaningful change to the GGP costs resulting from the NGI and a change to the cost allocation is therefore arguably not necessary, it considers that GGT's proposed method is reasonable. While GGT's method allocates more shared costs to the covered pipeline, the cost per TJ allocated to customers would be the same on both covered and uncovered pipelines. In the circumstances, the ERA's final decision is to accept GGT's proposed allocators for AA5.

Consistency between AA4 and AA5 cost allocators

In its initial proposal for AA5 capital expenditure, GGT used 'capacity-distance' allocators for costs that are dependent on distance (for example, in-line inspection costs) and 'capacity' allocators for costs that were non-compression-based and not distance-related.[2] However,

[2] Shared costs related to compressor stations are allocated based on the proportion of covered compressor units at that compressor station.

for AA4, GGT proposed to only use the capacity-distance allocators, submitting that this was consistent with the ERA's AA4 final decision. However, GGT did update this allocator based on the post-NGI capacity for the AA4 years 2023 and 2024.

In its draft decision, the ERA noted that the capacity and capacity-distance allocators had not been applied consistently between AA4 and AA5; and considered that the method used by GGP for AA5 more appropriately allocated the costs between distance-based and non-distance based costs. As a result, the ERA changed the AA4 cost allocators to be consistent with the AA5 cost allocators.

GGT's revised proposal rejected the ERA's draft decision. GGT noted that the ERA had set a capacity-distance allocator for costs incurred in AA2, AA3 and AA4. While GGT had proposed a change for the cost allocators in AA5 and maintained that position for AA5, it did not wish to change AA4 cost allocators. However, GGT removed the NGI capacity from the calculation of its cost allocator for AA4 years 2023 and 2024.

The ERA accepts GGT's position to leave the AA4 cost allocators unchanged given that it is consistent with the AA4 final decision and not retrospectively apply a new allocation method. The ERA has agreed to a different method in AA5. The ERA has accepted GGT's proposed cost allocation method for AA5 which it considers more appropriately allocates costs between distance-based and non-distance based costs.

Capital base

The opening capital base for the start of AA5 (1 January 2025) is $416.8 million. This reflects the ERA's final decision on the amount of conforming capital expenditure for AA4, which is $40.0 million. This is $7.7 million more than the draft decision and $26.5 million less than GGT's revised proposal.

The projected capital base for the end of AA5 (31 December 2029) is $388.0 million. This reflects the ERA's final decision on the amount of conforming forecast capital expenditure and depreciation for AA5.

The ERA's final decision approves a forecast of AA5 capital expenditure of $43.8 million.[3] This is $0.2 million lower than the draft decision and $12.5 million lower than GGT's revised proposal.

Summary of Required Amendments

4.1 The opening capital base for AA5 must be amended in the access arrangement information to reflect the values in Table 4.10 of this Final Decision Attachment 4.

4.2 The projected capital base for AA5 must be amended in the access arrangement information to reflect the values in Table 4.18 of this Final Decision Attachment 4.

[3] Includes equity raising costs.

Regulatory requirements

1. The *National Gas Access (WA) Act 2009* implements a modified version of the National Gas Law (NGL) and National Gas Rules (NGR) in Western Australia. The rules referenced in this decision are those that apply in Western Australia.[4]

2. Under the regulatory framework, these definitions apply in the NGR:[5]

> **capital base**, in relation to a pipeline, means the capital value to be attributed, in accordance with [Part 4 of the National Gas Rules], to pipeline assets.
>
> **capital expenditure** means costs and expenditure of a capital nature incurred to provide, or in providing, pipeline services.
>
> **conforming capital expenditure** means capital expenditure that complies with the new capital expenditure criteria.
>
> **depreciation** means depreciation of the capital base.
>
> **new capital expenditure criteria** mean the criteria stated in rule 79.
>
> **non-conforming capital expenditure** means capital expenditure that does not comply with the new capital expenditure criteria.

3. The NGR requires the following capital base information to be included in the service provider's Access Arrangement Information (AAI).[6]

   - Information on how the capital base is arrived at; and if the access arrangement period commences at the end of an earlier access arrangement period, information that demonstrates how the capital base increased or decreased over the previous access arrangement period (rule 72(1)(b)).
   - Information on the projected capital base over the access arrangement period, including a forecast of conforming capital expenditure and a forecast of depreciation (rule 72(1)(c)).

4. Rules 77 to 86 of the NGR set out various provisions for the capital base, which cover:

   - How the opening capital base is to be determined (rule 77):
     - Where an access arrangement period follows directly on from an earlier access arrangement period, the opening capital base for the later access arrangement period is to be calculated as follows:[7]
       - The opening capital base at the start of the earlier access arrangement period adjusted for any differences between forecast and actual capital expenditure included in that opening capital base;

4 The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed December 2024).
At the time of this decision, *National Gas Rules – Western Australia version 12 (1 February 2024)* was in effect.

5 NGR, rule 69.

6 AAI is information that is reasonably necessary for users (including prospective users) to understand the background to the access arrangement; and the basis and derivation of the various elements of the access arrangement.

7 NGR, rule 77(2).

– ***plus***: conforming capital expenditure made, or to be made, during the earlier access arrangement period;

– ***plus***: any amounts to be added for capital contributions, speculative capital expenditure or the reuse of redundant asses;

– ***plus***: the value of any extensions to the pipeline;

– ***less***: depreciation over the earlier access arrangement period;

– ***less***: redundant assets identified during the earlier access arrangement period;

– ***less***: the value of pipeline assets disposed of during the earlier access arrangement period.

- How the projected capital base is to be determined (rule 78):
  - the opening capital base;
    - ***plus***: forecast conforming capital expenditure for the period;
    - ***less***: forecast depreciation for the period and the forecast value of pipeline assets to be disposed of over the course of the period.
- The criteria for new capital expenditure (rule 79):
  - Conforming capital expenditure is expenditure that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable costs of providing services; and is justifiable on one of the grounds stated in rule 79(2); and is properly allocated in accordance with rule 79(6).
  - Rule 79(2) states that capital expenditure is justifiable if it meets one or more of the following criteria:

(a) the overall economic value of the expenditure is positive; or

(b) the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or

(c) the capital expenditure is necessary:

(i) to maintain and improve the safety of services; or

(ii) to maintain the integrity of services; or

(iii) to comply with a regulatory obligation or requirement; or

(iv) to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity); or

(v) to contribute to meeting emissions reduction targets through the supply of services; or

(d) the capital expenditure is an aggregate amount divisible into 2 parts, one referable to incremental services and the other referable to a purpose referred to in paragraph (c), and the former is justifiable under paragraph (b) and the latter under paragraph (c).

  - Rule 79(6) states that conforming capital expenditure must be for expenditure that is allocated between reference services; other services provided by means of the covered pipeline; and other services provided by means of uncovered parts (if any) of the pipeline.[8]

- Provisions for the regulator to make an advanced determination about future capital expenditure (rule 80).
- An express provision that allows a service provider to make capital expenditure during an access arrangement period that is, in whole or in part, non-conforming capital expenditure (rule 81).
- Provisions for users to make capital contributions towards a service provider's capital expenditure (rule 82).
- Provisions for the service provider to be able to recover non-conforming capital expenditure by means of a surcharge (rule 83).
- The establishment of a speculative capital expenditure account (rule 84):
  - To the extent that non-conforming capital expenditure is not recovered via a surcharge on users, the non-conforming expenditure may be added to a notional fund (the "speculative capital expenditure account") until it is determined that it complies with the criteria for conforming capital expenditure.
- Provisions for capital redundancy (rule 85).
- Provisions for the reuse of redundant assets (rule 86).

5. Further to the provisions covering the capital base, rule 71 of the NGR sets out the considerations that the regulator may and should have regard to when evaluating whether capital expenditure satisfies the governing criteria for new capital expenditure. The regulator:

- May, without embarking on a detailed investigation, infer compliance from the operation of an incentive mechanism or on any other basis that is considered appropriate.
- Must consider and give appropriate weight to, submissions and comments received in response to an invitation for submissions on whether a service provider's access arrangement proposal should be approved.

8 The allocation of capital expenditure to these categories of services must be done in accordance with rule 93.

ERA draft decision

6. GGT's capital expenditure covers the investment needed to ensure safe, secure and reliable operation of the GGP. The ERA assessed GGT's proposed actual capital expenditure for the current (AA4) access arrangement period and forecast capital expenditure for the next (AA5) access arrangement period in accordance with the expenditure criteria in the NGR using a three-step approach:

   - First, it considered whether the expenditure was justifiable under the various statutory criteria allowed (that is, economic, incremental revenue, safety, integrity criteria).
   - Second, it evaluated whether the expenditure would be undertaken by a prudent service provider acting efficiently, in accordance with accepted good industry practice to achieve the lowest sustainable cost of providing services consistent with the national gas objective.
   - Third, it assessed whether the forecasts or estimates were arrived at on a reasonable basis and whether they represented the best forecast or estimate possible in the circumstances.

7. The ERA determined that GGT's conforming AA4 capital expenditure needed to be adjusted:

   - While GGT's proposed stay in business conforming capital expenditure for AA4 was reasonable, there were some over allocations of stay in business expenditure to the covered pipeline.
   - While GGT confirmed the omission of $30.4 million of shared capital expenditure from its AA4 proposal was an oversight, the ERA was of the view that these costs should have been accounted for as AA4 operating costs.

8. The ERA's draft decision approved $32.3 million to be added to the capital base as conforming confirming capital expenditure, compared with GGT's proposal of $70.2 million (Table 4.1).

Table 4.1: ERA draft decision on AA4 conforming capital expenditure by asset category ($ million real at 31 December 2023)

Category	2020	2021	2022	2023	2024	Total
Pipeline and laterals	0.08	0.02	0.24	0.04	0.00	0.38
Main line valve and scraper stations	0.00	0.01	-0.01	0.19	0.96	1.14
Compressor stations	4.85	6.14	3.66	4.08	7.00	25.73
Receipt and delivery point facilities	0.00	0.00	0.00	0.00	0.01	0.01
SCADA and communications	0.12	0.09	0.07	0.48	0.38	1.14
Cathodic protection	0.00	0.00	0.00	0.00	0.09	0.09
Maintenance bases and depots	0.13	0.65	0.60	0.21	0.00	1.59
Other assets	0.45	0.08	0.68	0.42	0.52	2.16
Equity Raising Cost	0.02	0.00	0.00	0.00	0.00	0.02

Category	2020	2021	2022	2023	2024	Total
Shared corporate - IT/OT	0.00	0.00	0.00	0.00	0.00	0.00
Shared corporate - Cyber	0.00	0.00	0.00	0.00	0.00	0.00
Shared corporate - Other	0.00	0.00	0.00	0.00	0.00	0.00
Total	**5.66**	**6.98**	**5.24**	**5.41**	**8.98**	**32.27**

9. For AA5, GGT proposed to invest a total of $62.9 million for replacement and stay in business programs, information technology and operational technology, and security of critical infrastructure programs. GGT's proposed AA5 capital expenditure is 11 per cent lower than its actual estimated capital expenditure for AA4 ($70.2 million).

10. The ERA determined that GGT's forecast AA5 capital expenditure needed to be reduced:

- While GGT's proposed stay in business conforming capital expenditure for AA5 was reasonable, there were some over allocations of stay in business expenditure to the covered pipeline.
- GGT's proposed $15.9 million of shared AA5 capital expenditure was assessed as non-conforming capital expenditure.

11. The ERA's draft decision approved $44.3 million of forecast capital expenditure for AA5, compared with GGT's proposal of $62.9 million (Table 4.2).

Table 4.2: ERA draft decision on AA5 forecast capital expenditure by asset category ($ million real at 31 December 2023)

Category	2025	2026	2027	2028	2029	Total
Pipeline and laterals	0.00	0.00	0.05	0.05	0.00	0.09
Main line valve and scraper stations	1.69	1.23	1.09	1.06	0.32	5.39
Compressor stations	11.38	4.21	4.27	2.40	0.33	22.59
Receipt and delivery point facilities	0.07	0.43	0.38	0.01	0.00	0.88
SCADA and communications	0.10	0.00	0.00	0.00	0.00	0.10
Cathodic protection	0.20	0.17	0.07	0.00	0.01	0.45
Maintenance bases and depots	0.00	0.14	0.37	0.22	0.00	0.73
Other assets	9.92	3.30	0.13	0.13	0.28	13.77
Equity raising costs	0.28	0.02	0.00	0.00	0.00	0.29
Shared corporate - IT/OT	0.00	0.00	0.00	0.00	0.00	0.00
Shared corporate - Cyber	0.00	0.00	0.00	0.00	0.00	0.00
Shared corporate - Other	0.00	0.00	0.00	0.00	0.00	0.00
Total AA5 capital expenditure	**23.63**	**9.51**	**6.35**	**3.88**	**0.94**	**44.30**

12. Based on the ERA's assessment of conforming AA4 capital expenditure and forecast AA5 capital expenditure, the ERA determined the projected closing capital base for AA5 on 31 December 2029 to be $384.42 million (Table 4.3).[9]

Table 4.3: ERA draft decision closing capital base for AA5 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029
Opening capital base	409.77	420.96	416.51	408.60	398.03
Plus: Capital expenditure	23.63	9.51	6.35	3.88	0.94
Less: Depreciation	12.44	13.95	14.26	14.45	14.55
Less: Asset disposals	0.00	0.00	0.00	0.00	0.00
Closing capital base	**420.96**	**416.51**	**408.60**	**398.03**	**384.42**

13. The ERA set out the following draft decision required amendments:

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 [Table 4.1 of this final decision].

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.

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 [Table 4.3 of this final decision].

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.

9 The ERA's assessment of depreciation was set out in Draft Decision Attachment 6.

GGT response to draft decision

14. GGT responded to the draft decision by addressing the matters of concern that resulted in the ERA's adjustments to reduce GGT's proposed capital expenditure for AA4 and AA5 for inclusion into the capital base.[10]

15. GGT summarised its response to each of the matters it disagreed with as follows:[11]

- Shared capital expenditure
  - The ERA's draft decision disallowed all shared capital expenditure in AA4 and AA5 on the basis that these costs were already recovered through APA's corporate charges. GGT does not accept this and submits that shared capital expenditure has been properly allocated, consistent with the Cost Allocation Method (CAM) set by the ERA. The capital expenditure is also efficient, prudent and justified and should hence be included because it meets the conforming capital expenditure criteria.
  - GGT confirms that there has been no 'double dipping' of costs across capital and operating expenditure. Costs incurred by APA to provide covered pipeline services were allocated and directly passed through as either operating or capital expenditures to the covered pipeline. There has not been, and there are no, asset utilisation charges (or similar) which recover shared capital costs through an operating charge or fee.
- Allocator for capital expenditure
  - The ERA's draft decision changed the allocator for capital expenditure to the proportion of covered contracted capacity before the Northern Goldfields Interconnect (NGI), rather than as forecast, on the basis that there was no change to the pipeline's cost base. The draft decision also adjusted the allocator to be consistent across AA4 and AA5. GGT does not accept these positions.
  - GGT maintains its proposal that costs are allocated by applying a flexible and fair CAM, which is largely consistent with the ERA's approach for AA3 and AA4. This ensures that both the covered and uncovered portions of the pipeline are allocated a proportionate share of costs.
  - GGT proposes that AA4 costs are allocated in accordance with the CAM set by the ERA for AA4, noting that GGT's proposal to move from a 'capacity-distance' allocator to a 'capacity' allocator for AA5 results in different allocators across AA4 and AA5.
- Wiluna ambient temperature project
  - The ERA's draft decision reduced the allocation of the project costs to the covered pipeline on the basis that the project provides benefits to both the covered and uncovered portions of the pipeline. GGT does not accept this and maintains its proposal to allocate costs in accordance with the ERA's AA4 CAM. Wiluna is a covered compressor unit and, as such, 100 per cent of the costs are allocated to the covered pipeline.
  - Additionally, moving to a consistent beneficiary-based approach for compressor related costs would result in a material increase to costs allocated to the covered pipeline.

[10] GGT, *Goldfields Gas Pipeline AA5 - Revised proposal*, September 2024, p. 30.

[11] GGT, *Goldfields Gas Pipeline AA5 - Revised proposal*, September 2024, Table 4-1, pp. 30-31.

16. GGT accepted the ERA's decisions:

- To move the Wiluna wet seals project from the 'emissions reductions' cost category to the 'reliability' cost category on the basis that emissions reduction is an added benefit.
- To remove expenditure relating to receipt and delivery points on the basis that these were uncovered assets.[12]

[12] In reviewing this matter, GGT identified an additional site which should not have been included. This site has been removed in GGT's revised forecast.

Final Decision

17. The ERA received no submissions raising any matters related to the regulatory capital base.

18. To determine the opening and projected capital base for AA5, the ERA has assessed GGT's proposed actual and forecast capital expenditure for AA4 and AA5 in accordance with the NGR using a three-step framework:

- Consider whether the expenditure is justifiable under the various statutory criteria (economic, incremental revenue, safety, integrity).
- Evaluate whether the expenditure would be undertaken by a prudent service provider acting efficiently, in accordance with accepted good industry practice to achieve the lowest sustainable cost of providing services consistent with the national gas objective.
- Assess whether forecasts or estimates have been arrived at on a reasonable basis and do they represent the best forecast or estimate possible in the circumstances.

Opening capital Base

19. GGT's revised proposal included an opening capital base for AA5 of $445.27 million, which is equivalent to the closing capital base for AA4 (Table 4.4).

Table 4.4: GGT opening capital base for AA5 ($ million real at 31 December 2023)

	2019	2020	2021	2022	2023	2024
Opening capital base before adjustment	456.6					
Benefit from the difference between estimated and actual 2019 capital expenditure	(0.1)					
Opening capital base	456.5	444.4	442.2	442.1	441.6	439.3
Plus: Capital expenditure	1.5	10.7	13.8	13.5	11.7	18.8
Less: Depreciation	13.6	12.8	14.0	14.0	14.0	12.8
Closing capital base	**444.4**	**442.2**	**442.1**	**441.6**	**439.3**	**445.3**

Source: GGT, Revised Proposal Tariff Model.

AA4 capital expenditure

20. For AA4 capital expenditure, GGT initially proposed $64.1 million, which was significantly higher than both GGT's AA4 proposal ($17.6 million) and the ERA's AA4 final decision ($7.5 million).[13] GGT cited three key reasons for the increase in expenditure: it had not anticipated several cost categories (including IT/OT, cyber

[13] GGT, Initial proposal, January 2024, p. 64, ERA, Draft decision – attachment 4, July 2024, p. 4.

security and lease costs); there was scope uncertainty when preparing the initial proposal; and supplier cost increases.[14]

21. As part of responses to information requests, GGT made revisions to its proposal and revised the AA4 capital expenditure amount to $70.2 million. The increase from $64.1 million to $70.2 million was mainly due to incorrect cost allocations in its initial proposal (Table 4.5).[15]

Table 4.5: GGT proposed actual/estimated AA4 capital expenditure ($ million real at 31 December 2023)

Capital expenditure by category	2020	2021	2022	2023	2024	Total
Stay in business						
Integrity	0.1	0.0	0.0	0.0	0.4	0.5
Rotating maintenance	0.0	0.4	1.7	0.1	0.4	2.5
End of equipment life	2.2	0.1	0.2	1.5	3.5	7.5
Net zero	0.0	0.0	0.0	0.0	0.0	0.0
Physical security	0.0	0.0	0.0	0.0	1.5	1.5
Hazardous area / compliance	0.1	0.0	0.5	0.1	0.5	1.1
Reliability	4.0	8.5	1.9	2.9	2.7	19.9
Other	0.7	1.2	1.4	1.1	0.2	4.7
Buried pipework	0.0	0.0	0.3	0.6	1.0	2.0
Stay in business sub-total	**7.1**	**10.2**	**5.9**	**6.3**	**10.3**	**39.8**
Shared capital expenditure						
IT/OT	2.3	2.0	4.1	4.9	4.9	18.0
Cyber	0.0	0.4	0.5	1.6	1.5	4.0
Other shared corporate	0.9	1.3	3.3	1.4	1.4	8.3
Shared capital expenditure sub-total	**3.3**	**3.7**	**7.9**	**7.9**	**7.8**	**30.4**
Total AA4 capital expenditure	**10.4**	**13.9**	**13.7**	**14.2**	**18.1**	**70.2**

Source: GGT, IR EMCa 32.

22. The ERA's draft decision determined that GGT's conforming AA4 capital expenditure needed to be adjusted:

- GGT's proposed stay in business conforming capital expenditure for AA4 was reasonable, except for some over allocations of stay in business expenditure to the covered pipeline.

[14] GGT, Goldfields Gas Pipeline AA5 – Attachment 10.1: Capital Expenditure Overview, 1 January 2024, p. 12.

[15] GGT corrected and updated its original proposal (Information Request EMCa 32).

- GGT stated that the omission of $30.4 million of shared capital expenditure from its AA4 proposal was an oversight. However, the ERA considered that these costs were not permitted expenditure of a capital nature and should have been accounted for as part of the AA4 operating costs.
- The ERA applied consistent cost allocators between AA4 and AA5 and replaced the post-NGI cost allocators used by GGT in 2023 and 2024 with pre-NGI cost allocators.[16]

23. The ERA's draft decision approved $32.3 million to be added to the capital base as conforming capital expenditure, compared with GGT's proposal of $70.2 million.[17]

24. The sections below set out the ERA's final decision considerations of GGT's revised proposal for cost allocation, AA4 stay in business capital expenditure, AA5 stay in business capital expenditure and shared capital expenditure.

Cost allocation

Cost allocators due to the interconnection of the NGI

25. In its initial proposal, GGT proposed a change to the capacity allocators – 'capacity' and 'capacity-distance' – due to the interconnection of the NGI because the NGI increased the capacity of GGP. GGT proposed for the change to apply to both AA4 (for the years 2023 and 2024 only) and AA5.

26. The ERA's draft decision noted that cost allocators only apply to shared GGP costs and are based on the drivers of those pipeline costs (for example, an additional compressor on the GGP, which would increase the pipeline costs and capacity, would result in an increase of shared compressor related capital expenditure to the covered GGP). The NGI costs are borne by the NGI and as per GGT's proposal, the interconnection of the NGI has no meaningful impact on GGP costs. As the GGP costs have not changed due to the interconnection of the NGI capacity, there was no underlying driver to base a GGP cost allocation change on and as a result, the ERA decided that there should be no change to the cost allocation factors. The ERA's draft decision kept the cost allocation percentages the same as "pre-NGI" (that is, prior to the interconnection of the NGI).

27. GGT's revised proposal rejected the ERA's draft decision. GGT submitted that it was not consistent for the ERA to accept the forecast increase in contracted capacity (which lowers tariffs) but to not accept the consequent change to the allocators (which increases tariffs but by less than the reduction from higher levels of demand).[18]

28. While the ERA notes that there is no meaningful change to GGP costs resulting from the NGI and a change to the cost allocation is therefore arguably not necessary, it considers that GGT's proposed method is reasonable. While GGT's method allocates more shared costs to the covered pipeline, the cost per TJ allocated to customers would be the same on both covered and uncovered pipelines. In the circumstances, the ERA's final decision is to accept GGT's proposed allocators for AA5.

[16] ERA, Draft decision – attachment 4, July 2024, pp. 7-9.

[17] ERA, Draft decision – attachment 4, July 2024, p. 18.

[18] GGT, Revised Proposal Overview, September 2025, p. 45, 46.

Consistency between AA4 and AA5 cost allocators

29. In its initial proposal for AA5 capital expenditure, GGT used 'capacity-distance' allocators for the costs that are dependent on distance (for example, in-line inspection costs) and used 'capacity' allocators for costs that were non-compression based and/or non-distance related. However, for AA4, GGT proposed the use of capacity-distance allocators only, submitting that this was consistent with the ERA's AA4 final decision; although GGT did update the allocator based on post-NGI capacity for the AA4 years 2023 and 2024.

30. The ERA's draft decision noted that the capacity and capacity-distance allocators had not been applied consistently between AA4 and AA5. Given the method used by GGT in its AA5 cost allocation more appropriately allocated the costs to reflect the cost driver, whether that was distance or non-distance based, the ERA changed the AA4 cost allocators to be consistent with the AA5 cost allocators.

31. GGT's revised proposal rejected the ERA's draft decision. GGT noted that the ERA had set a capacity-distance allocator for costs incurred in AA2, AA3 and AA4. While GGT had proposed a reasonable change for the cost allocators in AA5 (and maintained this position in its revised proposal), it did not wish to change AA4 cost allocators as this was accepted in the ERA's AA4 decision. Also, GGT changed its initial proposal cost allocator position for the AA4 years 2023 and 2024 to exclude the NGI capacity from its allocation as this was not approved by the ERA in its AA4 decision.[19]

32. While the ERA remains of the view that the AA5 cost allocation method is the most appropriate way to distinguish distance-related and non-distance related shared costs, the ERA accepts GGT's position to leave the AA4 cost allocators unchanged given that the ERA approved the use of capacity-distance allocators in its AA4 final decision.

AA4 stay-in-business capital expenditure

33. In its revised proposal, GGT made several changes to its AA4 stay-in-business capital expenditure. Table 4.6 compares GGT's initial and revised proposals with the ERA's draft decision.

34. GGT has proposed a revised AA4 stay-in-business capital expenditure amount of $40 million (Table 4.7). In deriving this value, GGT advised that it:

- replaced 2023 placeholders/estimates with actuals;
- updated the 2024 forecast to include January to June actuals;
- aligned AA4 actuals with the updated Regulatory Information Notice (submitted to the ERA in May 2024);
- made modelling changes to apply AA4 allocators to AA4 costs; and
- did not agree with all of ERA's cost allocation changes and applied cost allocators as per ERA's AA4 final decision.[20]

35. GGT's revised AA4 stay-in-business capital expenditure is $7.7 million (24 per cent) higher than the ERA's draft decision amount and $0.2 million higher than GGT's initial

19 GGT, Revised Proposal Overview, September 2025, p. 48.

20 GGT, Revised Proposal Overview, September 2025, p. 32; Information request EMCa53.

proposed amount due primarily to increases in the following three categories, which are considered below:

- 'Rotating maintenance' (discussed at paragraph 3636).
- 'Reliability' (discussed at paragraph 38).
- 'Other' (discussed at paragraph 46).

Table 4.6: AA4 Stay-in-business capital expenditure comparison by category ($ million real 2023)

Category	GGT Initial Proposal	ERA Draft Decision (A)	GGT Revised Proposal (B)	Variance (B minus A)
Integrity	0.5	0.5	0.6	0.1
Rotating maintenance	2.5	2.5	2.8*	0.3
End of equipment life	7.5	5.7	5.7	0.0
Net zero	0.0	0.0	0.0	0.0
Physical security	1.5	1.5	1.5	0.0
Hazardous area / compliance	1.1	1.0	1.2	0.2
Reliability	19.9	15.6	21.4	5.7
Other	4.7	3.5	4.6	1.1
Buried pipework	2.0	1.8*	2.1	0.3
Total	**39.8**	**32.3**	**40.0**	**7.7**

Source: EMCa, Final technical report, Nov 2024, Table 3.1.

** This is shown as $4.8m in GGT's revised proposal (Table 4-3) but was subsequently updated by GGT to $2.8m to correct an error in response to an information request (EMC53 Q1).*

Table 4.7: GGT AA4 revised Stay-in-business capital expenditure ($ million real 2023)

Category	2020	2021	2022	2023	2024	Total
Integrity	0.1	0.0	0.0	0.0	0.5	0.6
Rotating maintenance	0.0	0.4	1.7	0.2	0.5	2.8
End of equipment life	2.2	0.1	0.2	0.5	2.7	5.7
Net zero	0.0	0.0	0.0	0.0	0.0	0.0
Physical security	0.0	0.0	0.0	0.0	1.5	1.5
Hazardous area / compliance	0.1	0.0	0.5	0.1	0.6	1.2
Reliability	4.0	8.5	1.9	4.4	2.8	21.5
Buried pipework	0.0	0.0	0.3	0.3	1.4	2.1

Category	2020	2021	2022	2023	2024	Total
Other	1.0	1.2	1.2	0.9	0.3	4.6
Total	**7.4**	**10.2**	**5.7**	**6.4**	**10.4**	**40.0**

Source: GGT, Information request EMCa53.

'Rotating maintenance'

36. GGT advised that, in responding to an information request, it identified an error in its forecast in which it over-estimated the costs of its Yarraloola gas engine alternator upgrade project. The error was made when GGT updated its forecast to reflect the actual spend of $3.2 million in the first six months of 2024, but did not revise the forecast for the balance of 2024 from $3.6 million down to $0.7 million.[21] This resulted in an updated revised conforming capital expenditure proposal for 'Rotating maintenance' of $2.8 million instead of $4.8 million.

37. The ERA's draft decision accepted the $2.5 million proposed by GGT in its initial proposal. GGT's updated total of $2.8 million includes an increase of $0.3 million due to the inclusion of actual expenditure to June 2024.[22] The ERA's final decision is that GGT's revised amount of $2.8 million is reasonable and conforms with the capital expenditure criteria in the NGR.

'Reliability'

38. Comparing GGT's AA4 revised reliability capital expenditure with the ERA's draft decision, the cost of two projects increased significantly:

- Wiluna pre-NGI (also referred to as the Wiluna Compressor Station Upgrade).
- Gas Engine Alternator (GEA) Upgrades – Yarraloola (Units 1 & 2).

Wiluna Compressor Station Upgrade

39. The main change to GGT's proposed AA4 reliability capital expenditure in the ERA's draft decision was to the allocation of the Wiluna pre-NGI project:

- GGT submitted in its initial proposal that it was reasonable to assign 100 per cent of the cost of this project to the covered pipeline.
- The ERA's draft decision considered that the project would provide benefits to both the covered and uncovered sections of the pipeline and hence the costs should be allocated accordingly. This resulted in a reduction of $4.3 million.

40. In its revised proposal, GGT has reinstated the 100 per cent allocation, stating that the ERA's cost allocation method for AA4 makes clear that compressor unit capital expenditure is to be allocated to the covered pipeline if it is a covered compressor unit.[23] GGT submits that the Wiluna compressor station is a covered compressor unit.

41. In its updated technical report, EMCa considers 100 per cent allocation to the covered pipeline appears to be reasonable, given (i) the prudency of the solution was not queried by the ERA in the draft decision; (ii) the quantum is essentially unchanged

[21] GGT, Information request, EMCa 53.

[22] EMCa, Final technical report, Nov 2024, p. 30.

[23] GGT, Revised proposal, September 2025, p. 31.

(notwithstanding the difference cause by differing allocation factors); and (iii) since the work is carried out on a covered compressor station (which Wiluna is), the cost allocation should be 100 per cent to the covered pipeline.[24]

42. Having considered GGT's revised proposal information and EMCa's technical advice, the ERA's final decision is that the capital expenditure for the Wiluna Compressor Station Upgrade project is reasonable and conforms with the expenditure criteria in the NGR.

GEA Upgrades – Yarraloola (Units 1&2)

43. The cost of the Yarraloola GEA project has increased $1.7 million from the approved $8.7 million in the ERA's draft decision to $10.4 million in GGT's revised proposal. GGT advised that the increased expenditure was due to:

- Additional cost to complete the original scope of work; and
- Additional design engineering works and procurement, which drives most of the cost increase.[25]

44. In its updated technical report, EMCa considered the additional cost resulting from scope changes to undertake additional design works and procurement to be reasonably incurred.

45. Having considered GGT's revised proposal information and EMCa's technical advice, the ERA's final decision is that the capital expenditure for the Wiluna Compressor Station Upgrade project is reasonable and conforms with the expenditure criteria in the NGR.

'Other'

46. GGT's revised proposal identified $4.6 million 'Other' stay-in-business capital expenditure, a reduction of $0.1 million from its initial proposal, but $1.1 million higher than the ERA's draft decision. The ERA's draft decision made a reduction of $0.36 million for the cost of constructing the NGI connection assets on the basis that the cost should be borne by the NGI (APA) instead of the GGP (GGT) given the connection and new facility agreement between the parties.

47. GGT accepted the ERA's draft decision and removed the NGI connection costs in its revised proposal. GGT provided a revised breakdown of its AA4 Other stay-in-business capital expenditure from which the NGI cost removal was largely offset by increased actual miscellaneous capital and National Asset Engineering data costs. In its updated technical report, EMCa considered the revised costs to be reasonable.[26]

48. Having considered GGT's revised proposal information and EMCa's technical advice, the ERA's final decision is that the AA4 other expenditure as proposed by GGT in its revised proposal is reasonable and conforms with the expenditure criteria in the NGR.

Final decision on AA4 stay-in-business capital expenditure

49. The ERA notes that in addition to the three expenditure categories discussed above, there are some small changes in other categories. These changes are due to the cost

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24 EMCa, Final technical report, Nov 2024, p. 30.

25 GGT, Information request, EMCa 53.

26 EMCa, Final technical report, Nov 2024, p. 31.

allocation changes accepted by the ERA in this final decision (refer paragraphs 28 and 32).

50. The ERA's final decision is to accept GGT's revised AA4 stay-in-business capital expenditure amount of $40 million as conforming capital expenditure for inclusion into the capital base.

51. Table 4.8 and Table 4.9 set out the approved AA4 stay-in-business capital expenditure by category and asset class, respectively.

Table 4.8: ERA final decision AA4 capital expenditure by category ($ million real 2023)

Category	2025	2026	2027	2028	2029	Total
Integrity	0.1	-	-	0.0	0.5	0.6
Rotating maintenance	-	0.4	1.7	0.2	0.5	2.8
End of equipment life	2.2	0.1	0.2	0.5	2.7	5.7
Net zero	-	-	-	-	0.0	0.0
Physical security	-	-	-	-	1.5	1.5
Hazardous area / compliance	0.1	0.0	0.5	0.1	0.6	1.2
Reliability	4.0	8.5	1.9	4.4	2.8	21.5
Buried pipework	-	0.0	0.3	0.3	1.4	2.1
Other	1.0	1.2	1.2	0.9	0.3	4.6
Total	**7.4**	**10.2**	**5.7**	**6.4**	**10.4**	**40.0**

Table 4.9: ERA final decision AA4 capital expenditure by asset class ($ million real 2023)

Asset class	2020	2021	2022	2023	2024	Total
Pipeline and laterals	0.1	0.0	0.0	0.0	0.1	0.3
Main line valve and scraper stations	0.0	0.0	0.0	0.0	1.3	1.3
Compressor stations	3.3	9.1	4.3	4.9	7.8	29.4
Receipt and delivery point facilities	0.8	0.0	0.0	0.0	0.2	1.1
SCADA and communications	2.1	0.2	0.3	0.5	0.2	3.3
Cathodic protection	0.0	0.0	0.0	0.2	0.1	0.3
Maintenance bases and depots	0.2	0.8	0.8	0.1	0.0	1.9
Other assets	0.9	0.1	0.4	0.6	0.6	2.5
Equity Raising Cost	0.0	0.0	0.0	0.0	0.0	0.0
Total	7.4	10.2	5.7	6.4	10.4	40.0

AA4 shared capital expenditure

52. GGT's initial proposal included $30.4 million for shared capital expenditure for AA4. The ERA's draft decision was that GGT's shared AA4 capital expenditure was not permitted capital expenditure, noting that the expenditure was not included in GGT's AA4 proposal.

53. GGT submitted that the omission of $30.4 million shared capital expenditure from its AA4 proposal, and similarly shared capital expenditure for earlier access arrangements, was an oversight. In any case, the ERA considered that these costs should have been accounted for as part of GGT's AA4 operating costs. Additionally, the ERA noted that APA Group applies a charge to GGT for operating expenditure, which covers corporate and management services (such as information technology and leased assets). The ERA also did not approve further corporate expenditure being allocated to the capital expenditure categories for AA4 and AA5 because GGT had not demonstrated that this expenditure was not already covered by that existing APA Group charge.

54. GGT's revised proposal rejected the ERA's draft decision. GGT submitted that the relevant expenditure had been properly allocated (in accordance with its cost allocation method). GGT also stated that there had not been, and there is no, asset utilisation charges (or similar) which recovered shared capital costs through an operating expenditure charge or fee, and therefore that there was no 'double dipping' of costs across capital and operating expenditures. GGT amended the AA4 shared capital expenditure amount in its revised proposal to $26.5 million. GGT submitted that the lower amount (compared to its initial proposal) was due to the adjustment to cyber security (reflecting that GGT is capitalising a smaller proportion of these costs) and the updated forecast for 'other' shared capital expenditure.

55. The ERA has considered GGT's revised proposal and advice from its technical consultant and is satisfied that GGT is not seeking to 'double dip' on costs across capital and operating expenditure for APA's shared costs. However, the ERA still does not approve GGT's proposed AA4 shared capital expenditure.

56. For this final decision, the ERA maintains its draft decision position that these costs are not permitted expenditure of a capital nature incurred to provide pipeline services and should be treated as operating expenditure and should have been accounted for as part of GGT's AA4 operating expenditure. The ERA has reached this conclusion for the following reasons:

    - Categorising assets that are on the parent company's balance sheet as assets for the regulated entity is contrary to the long-term interest of users of the pipeline. If the regulated business is sold in the future, the assets would continue to sit in the regulated asset base of the pipeline even though no benefit would be derived from these assets as these are the parent company's assets. In addition, the new owner may have its own assets that need to be charged to the pipeline. Treating the costs as an operating cost overcomes this concern.
    - Over time, if the parent company's asset is used differently by its subsidiaries, then the share of the cost recovery will change. By treating it as a capital asset for the regulated business, this is fixed at the current allocation. As APA is a significantly diversified company, it is likely that the use and amount of shared capital assets may change. Treating the costs as an operating cost overcomes this issue.
    - The position is analogous to the previous treatment of parent company management fees. APA charged, and the ERA approved, management fees as

operating expenditure in AA4 and previous access arrangements. GGT has noted that these fees were not based on costs and could reasonably be considered as margins or on costs that contributed to APA's investment in its corporate infrastructure.

- GGT has moved 'Software as a Service' expenditure from operating expenditure to capital expenditure, which suggests that there are costs properly categorised as operating costs that have been treated as capital expenditure for the purposes of GGT's regulatory submission. The shared capital expenditure for cyber security in GGT's revised proposal is lower as some of the expenditure categorised as capital expenditure has now been moved to operating expenditure.
- GGT noted that its shared capital expenditure has been properly allocated (in accordance with its cost allocation method). The ERA approves the cost allocation at each access arrangement review and it was last reviewed for AA4 in December 2019. The ERA had not considered a cost allocation of shared capital expenditure in AA4 as it had not been proposed. It is only for this AA5 review that GGT has proposed shared capital expenditure.

57. The ERA notes that the AER has accepted an allocation of shared capital expenditure in previous access arrangement decisions for APA owned pipelines. The ERA further notes that in the Dampier to Bunbury Natural Gas Pipeline access arrangement it accepted shared capital expenditure for a discrete IT security project of $2.4 million. However, this one-off shared project allocation is very different to GGT's proposed approach to the on-going allocation of a diversified and extensive list of corporate capital expenditure from the parent entity. For the reasons noted above, the ERA considers that these costs should be treated as operating costs.

58. After taking into account GGT's submissions and all of the above matters, the ERA is of the view that for the reasons mentioned above the shared costs are not permitted capital expenditure under the NGR and should have been accounted for as operating costs. Further, the ERA considers that this decision is consistent with the national gas objective, including the long-term interest of consumers of natural gas. On this basis, the ERA's final decision is that the AA4 shared capital expenditure is non-conforming with Rule 79 of the NGR.

Final decision on opening capital base

59. Table 4.10 shows the derivation of the ERA's opening capital base for AA5 (which is the closing capital base for AA4 at 31 December 2024). The table shows an adjustment for the benefit GGT received for actual 2019 expenditure being below the forecast amount and rolling forward the approved capital expenditure (noted above), less the forecast depreciation approved for the AA4 period.

Table 4.10: ERA's opening capital base for AA5 ($ million real at 31 December 2023)

	2019	2020	2021	2022	2023	2024
Opening capital base before adjustment	456.6					
Benefit from the difference between estimated and actual 2019 capital expenditure	(0.1)					
Opening capital base	456.5	444.4	439.0	435.2	426.9	419.3
Plus: Capital expenditure	1.5	7.4	10.2	5.7	6.4	10.4
Less: Depreciation	13.6	12.8	14.0	14.0	14.0	12.8
Closing capital base	**444.4**	**439.0**	**435.2**	**426.9**	**419.3**	**416.8**

Source: ERA tariff model

Required Amendment

4.1 The opening capital base for AA5 must be amended in the access arrangement information to reflect the values in Table 4.10 of this Final Decision Attachment 4.

Projected capital base

60. GGT's revised proposal included a closing value for the projected capital base for AA5 of $403.8 million (Table 4.11).

Table 4.11: GGT projected capital base for AA5 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029
Opening capital base	445.3	452.6	444.0	432.1	419.1
Plus: Capital expenditure	28.0	12.0	8.1	5.9	2.7
Less: Depreciation	20.7	20.5	20.0	18.8	18.1
Closing capital base	**452.6**	**444.0**	**432.1**	**419.1**	**403.8**

Source: GGT Tariff Model

AA5 capital expenditure

61. For AA5, GGT proposed to invest a total of $62.9 million of capital expenditure for replacement and stay in business programs, information technology and operational technology, and security of critical infrastructure programs. GGT's proposed capital expenditure for AA5 is 11 per cent lower than GGT's revised proposed capital expenditure for AA4 ($70.2 million).

62. GGT's AA5 proposed capital expenditure includes major asset replacement and maintenance programs, as well as a significant in-line inspection program that is scheduled to occur in 2025. Stay in business investments make up 75 per cent of the total forecast capital expenditure for AA5. Shared capital expenditure for information technology and operational technology (IT/OT), cyber costs and property related costs comprised the balance.[27]

63. The ERA's draft decision determined that GGT's proposed conforming AA5 capital expenditure needed adjusting for the following reasons:[28]

- GGT's proposed stay in business conforming capital expenditure for AA5 is reasonable, except for some over allocations of stay in business expenditure to the covered pipeline.
- GGT proposed $15.9 million of shared AA5 capital expenditure. For the reasons explained above in relation to AA4 shared capital expenditure, the ERA considered that this amount was not permitted capital expenditure.
- The ERA replaced the post-NGI cost allocators used by GGT in AA5 with pre-NGI cost allocators.

64. The ERA's draft decision allowed $44 million to be added to the capital base as conforming capital expenditure, compared with GGT's proposal of $62.9 million.[29]

65. The sections below set out the ERA's final decision considerations on GGT's revised proposal for AA5 stay-in-business capital expenditure (stay-in-business capital expenditure) and shared capital expenditure.

AA5 stay-in-business capital expenditure

66. GGT's revised proposal includes $43.5 million of stay-in-business capital expenditure for AA5, which is $0.5 million less than the ERA's draft decision ($44.0 million) and $3.5 million less than GGT's initial proposal ($47.0 million) (Table 4.12).

Table 4.12: AA5 stay-in-business capital expenditure comparison ($ million real 2023)

Category	GGT initial proposal	ERA draft decision (A)	GGT revised proposal (B)	Variance (B minus A)
Integrity	12.9	12.7	12.7	0.0
Rotating maintenance	3.1	3.1	3.1	0.0
End of equipment life	11.0	8.4	7.8	-0.5
Net zero	4.0	0.0	0.0	0.0
Physical security	7.6	7.5	7.5	0.0
Hazardous area / compliance	0.8	0.8	0.8	0.0
Reliability	4.3	8.3	8.3	0.0

27 ERA, Draft decision – attachment 4, July 2024, p. 22.

28 ERA, Draft decision – attachment 4, July 2024, p. 18.

29 ERA, Draft decision – attachment 4, July 2024, p. 32.

Category	GGT initial proposal	ERA draft decision (A)	GGT revised proposal (B)	Variance (B minus A)
Other	2.1	2.1	2.1	0.0
Buried pipework	1.2	1.1	1.1	0.0
Total	**47.0**	**44.0**	**43.5**	**-0.5**

Source: EMCa, Final technical report, Nov 2024, Table 3.3.

67. GGT's revised proposal accepted all the ERA's draft decisions pertaining to AA5 stay-in-business capital expenditure, and made a further two changes:[30]

- GGT removed an incorrectly assigned project from the End of Equipment Life category, reducing the forecast conforming capital expenditure by $0.12 million, and
- GGT reduced the contracted capacity allocator from 61 per cent to 58 per cent.

68. The ERA found no issues with GGT's initially proposed stay-in-business capital expenditure and also finds no adjustment is required to GGT's AA5 revised proposal on technical grounds. Further, as discussed above,[31] the ERA has accepted GGT's proposed AA5 cost allocation.

69. The ERA's final decision is to accept GGT's revised AA5 stay-in-business capital expenditure amount of $43.5 million as conforming capital expenditure for inclusion into the capital base.

70. Table 4.13 and Table 4.14 set out the approved AA5 stay-in-business capital expenditure by category and asset class, respectively.

AA5 Equity Raising costs

71. Firms may need to issue new equity in order to maintain the benchmark debt-to-equity ratio following increases in the regulated asset base.

72. The issuance of new equity will have transaction costs, depending on the way in which the equity is raised.

73. As explained in the current rate of return instrument explanatory statement the ERA will account for these transaction costs as a part of the capital expenditure building block.[32]

74. GGT's initial and proposed revised Access Arrangement Information included a calculated estimate of the required equity raising costs based on its proposed forecast capital expenditure. The ERA has adjusted the forecast capital expenditure for AA5 as set out in this document and has calculated revised equity raising costs to be as reflected in the tariff model published with this final decision. The equity raising costs are included in Table 4.14.

30 EMCa, Final technical report, Nov 2024, p. 30; GGT, Revised proposal, September 2025, Table 4.10.

31 ERA, Final decision – attachment 4, pp. 9, 10.

32 ERA, Explanatory statement for the 2022 final gas rate of return instrument, 16 December 2022, p. 210.

Table 4.13: **ERA final decision AA5 capital expenditure by category ($ million real 2023)**

Category	2025	2026	2027	2028	2029	Total
Integrity	9.7	3.0	-	-	-	12.7
Rotating maintenance	0.5	0.2	1.7	0.4	0.3	3.1
End of equipment life	3.2	2.0	1.2	1.1	0.4	8.4
Net zero	-	-	-	-	-	0.0
Physical security	3.7	2.7	0.8	0.3	-	7.5
Hazardous area / compliance	0.7	0.2	-	-	-	0.8
Reliability	4.3	0.0	2.0	2.0	-	8.3
Buried pipework	1.0	0.8	0.3	-	-	1.1
Other	0.3	0.3	0.1	0.1	0.3	2.1
Total	**23.3**	**9.2**	**6.1**	**3.9**	**1.0**	**43.5**

Source: GGT, Information request EMCa 53.

Table 4.14: ERA final decision AA5 capital expenditure by asset class ($ million real 2023)

Asset class	2025	2026	2027	2028	2029	Total
Pipeline and laterals	0.0	0.0	0.0	0.0	0.0	0.1
Main line valve and scraper stations	1.8	1.3	1.2	1.1	0.3	5.7
Compressor stations	11.4	4.2	4.3	2.4	0.3	22.6
Receipt and delivery point facilities	0.0	0.0	0.0	0.0	0.0	0.0
SCADA and communications	0.0	0.0	0.0	0.0	0.0	0.0
Cathodic protection	0.2	0.2	0.1	0.0	0.0	0.5
Maintenance bases and depots	0.0	0.2	0.4	0.2	0.0	0.8
Other assets	10.0	3.3	0.1	0.1	0.3	13.9
Equity Raising Cost	0.3	0.0	0.0	0.0	0.0	0.3
Total	**23.6**	**9.2**	**6.1**	**4.0**	**1.0**	**43.8**

Source: GGT, Information request EMCa 53.

AA5 shared capital expenditure

75. GGT initially proposed shared capital expenditure for AA5 of $15.9 million. The ERA's draft decision determined that this proposed expenditure did not constitute permissible expenditure of a capital nature incurred by GGT to provide the pipeline services and should have been accounted for as part of GGT's AA5 operating costs.

76. GGT's revised proposal rejected the ERA's draft decision. GGT submitted that the relevant expenditure has been properly allocated (in accordance with its cost allocation method). GGT also submitted that there has not been, and there is no, asset utilisation charge (or similar) which recovered shared capital costs through an operating cost charge or fee, and therefore, there was no 'double dipping' of costs across capital and operating expenditures. GGT revised its proposed shared capital expenditure to $12.8 million. GGT's lower forecast is due to its updated forecast for 'other' shared capital expenditure and an adjustment to cyber security (reflecting that GGT is capitalising a smaller proportion of these costs).[33]

77. The ERA's final decision is to not approve GGT's revised AA5 shared capital expenditure for the same reasons set out in the AA4 shared capital expenditure considerations above (at paragraph 56). Consistent with the ERA's reasoning, the ERA has reviewed GGT's proposed amount of AA5 shared capital expenditure allocated from APA to the covered GGP to determine an amount of APA capital expenditure that may be charged as operating expenditure to GGT. In the circumstances the ERA has approved this expenditure being added to the AA5 operating costs and, although the ERA considers that there may be alternative more equitable or 'smoothing' options to determine the expensed amount as an asset utilisation charge, given the constraints of the statutory review timetable, for this access arrangement review, the amount will be expensed in the year it is incurred.

Assessment of revised AA5 shared capital expenditure for inclusion as operating expenditure

78. As set out above, while the ERA has not approved GGT's revised shared capital expenditure as capital expenditure, it has assessed the expenditure to determine an amount that can be incorporated as AA5 operating expenditure.

79. GGT's revised proposal included $12.8 million as AA5 shared capital expenditure (Table 4.15), which is $3.1 million less compared to its initial proposal (Table 4.16).

Table 4.15: GGT AA5 shared capital expenditure ($ million real 2023)

Category	2025	2026	2027	2028	2029	Total
IT/OT	2.8	1.2	0.5	0.4	0.2	5.2
Cyber security	0.2	0.2	0.2	0.2	0.2	1.0
Other	1.3	1.3	1.3	1.3	1.3	6.7
Total	**4.4**	**2.8**	**2.0**	**1.9**	**1.8**	**12.8**

Source: GGT, Information request, EMCa 53.

33 GGT, Revised Proposal Overview, September 2025, p. 32.

Table 4.16: GGT AA5 shared capital expenditure comparison ($ million real 2023)

Category	GGT initial proposal (A)	ERA draft decision	GGT revised proposal (B)	Variance (B minus A)
IT/OT	5.2	0	5.2	0.0
Cyber security	3.8	0	1.0	-2.8
Other	7.0	0	6.7	-0.3
Total	**15.9**	**0.0**	**12.8**	**-3.1**

Source: GGT initial and revised proposals; ERA draft decision.

80. GGT submitted that its revised shared capital expenditure amount was lower than its initial proposal due to its updated forecast for ‘other’ shared capital expenditure and an adjustment to cyber security (reflecting that it will be capitalising a smaller proportion of these costs).[34]

81. A review of GGT’s revised shared capital expenditure has determined that the capital expenditure associated with the ‘grid solutions’ project within IT/OT is $2.8 million and includes a contingency of 13 per cent.[35] Additionally, the cyber security expenditure contains contingency as well.[36] The ERA does not consider that contingency amounts can be included as part of the expenditure because, in an overall portfolio of projects, some projects are expected to be higher, while others lower, than the forecast amounts. The ERA has therefore decided to remove contingency of $0.4 million from the grid solutions project and the cyber security expenditure.

82. As part of reviewing various line items, the ERA reviewed the Unified Operations Platform expenditure of $0.4 million to test its benefit to GGP customers. Based on GGT’s response to an information request,[37] the ERA considers that the project is not sufficiently developed to be confident of the benefits (currently unquantified). Accordingly, based on the available information, the ERA has determined that the project does not meet the expenditure criteria in the NGR for inclusion.

83. In relation to ‘other’ shared capital expenditure of $6.7 million, the ERA notes that GGT has removed the one-off renovation expenditure for the Brisbane office in 2022, when deriving the average for the 2020 to 2023 period, which was used as a basis to forecast AA5 ‘other’ shared capital expenditure. The ERA has further assessed the other line items within the other shared capital expenditure and notes the following:

   - **Premises:** Like the one-off expenditure for the Brisbane office, the Perth office has incurred an above average expenditure in 2021. The ERA has averaged the remaining years to derive the expenditure for the Perth office in 2021 to be used in the forward looking forecast.
   - **Leased assets:** The ERA noted the approximately $1 million expenditure for leased assets in 2022, which was above the average cost for the remaining years of approximately $90,000 per annum (the average of AA4 costs were used to

34 GGT, Revised proposal, September 2025, p. 33.

35 GGT, Information request, EMCa 50.

36 GGT, Information request, ERA 15.

37 GGT, Information request, EMCa 02.

derive the forecast for AA5). GGT explained that the one-off increase was due to the renewal of leases for the Brisbane and Perth office which would expire in the 2028/2029 period. Given that APA is likely to engage in further leases for these locations in AA5, the ERA has not amended this line item.

- **Product build implementation:** The ERA queried this expenditure and in response, GGT explained that the expenditure was an add-on to the grid solutions program. Its purpose was to deliver greater speed and standardising to systemising contracts in grid allowing APA to provide services quicker to customers. The ERA viewed this as a one-off expenditure in AA4 that was not likely to be required in AA5. The product build expenditure was removed from the line items for 'other' shared expenditure.
- **Other:** The ERA queried what this expenditure was for and in response GGT confirmed that this line item contained several small projects. The largest one was described as the facility asset information project, which was a step change improvement to improve facility asset information for all of APA's above-ground facilities, including the GGP. The ERA viewed this project as complete and not requiring to be repeated in AA5.

84. Resulting from the assessment above, the ERA considers that $5 million of 'other' shared capital expenditure should be included as operating expenditure during AA5.[38]

85. Based on the considerations above, the ERA's final decision is for $10.3 million of AA5 shared expenditure to be added to operating expenditure and expensed in the year incurred (Table 4.17).

Table 4.17: ERA final decision AA5 shared capital expenditure to be transferred to operating costs ($ million real 2023)

Category	2025	2026	2027	2028	2029	Total
IT/OT	2.6	1.1	0.4	0.3	0.2	4.5
Cyber security	0.2	0.2	0.2	0.2	0.2	0.9
Other	1.0	1.0	1.0	1.0	1.0	5.0
Total	**3.8**	**2.3**	**1.5**	**1.4**	**1.3**	**10.3**

Source: ERA, Final Decision AA4 AA5 capital expenditure model.

Final decision on projected capital base

86. Table 4.18 shows the derivation of the ERA's closing capital base for AA5, using the capital expenditure approved above and the depreciation of these values (as determined in Final Decision Attachment 6). The ERA's final decision determines a closing capital base value for AA5 of $388.01 million.

38 ERA, Final Decision AA4 AA5 capital expenditure model.

Table 4.18: ERA closing capital base for AA5 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029
Opening capital base	416.81	427.34	421.98	413.21	402.15
Plus: Capital expenditure	23.61	9.17	6.06	3.95	0.97
Less: Depreciation	13.08	14.53	14.83	15.01	15.11
Closing capital base	**427.34**	**421.98**	**413.21**	**402.15**	**388.01**

Source: ERA tariff model

Required Amendment

4.2 The projected capital base for AA5 must be amended in the access arrangement information to reflect the values in Table 4.18 of this Final Decision Attachment 4.

Appendix 1 List of Tables