Economic Regulation Authority

Final decision on access arrangement for the Goldfields Gas Pipeline (2025 to 2026)

Attachment 5: Operating Expenditure

18 December 2024

D284888

Acknowledgement of Country

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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
  - Attachment 2: Demand
  - Attachment 3: Revenue and tariffs
  - Attachment 4: Regulatory capital base
  - Attachment 5: Operating expenditure (this document)
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  - Attachment 9: Service terms and conditions

Attachment 5. Summary

GGT's revised proposal included $134.84 million for operating expenditure for AA5.

The ERA has determined operating expenditure for AA5 of $132.42 million.

GGT's forecast AA5 operating expenditure was determined using two approaches; the base-step-trend method and a specific forecast. To determine forecasts using the base-step-trend method, GGT used its actual operating expenditure from the most recent complete calendar year, being 2023.

Base year

GGT's base year operating costs were $32.47 million. GGT proposed to adjust the base year upwards by $0.09 million, to account for a forecast increase in capacity from the Northern Goldfields Interconnect (NGI) in AA5.

GGT proposed a base year adjustment to its corporate costs, down by $1.19 million to make its 2023 actual expenditure reflective of the expected costs it will incur in the AA5 period. GGT also proposed to remove $2.66 million in non-recurrent costs (including demand side management and APA operations and commercial management fees).

In addition, GGT then proposed to remove $4.78 million of costs that GGT proposed to forecast separately; these costs include GGT's regulatory proposal preparation costs, Security of Critical Infrastructure (SoCI) costs and expenditure relating to GGT's enterprise resource planning (ERP) program.

Removing these non-recurring costs and expenditure that GGT is forecasting separately results in a base year value of $23.93 million, giving a total AA5 base year expenditure of $119.66 million.

The ERA has determined that an additional $1.95 million in expenditure be removed from GGT's base year corporate costs, resulting in an efficient base year cost of $21.98 million per year for AA5, which results in a total of $109.88 million in AA5 for base operating expenditure.

Specific forecasts and step changes

GGT specifically forecast its expenditure for SoCI due to the varying costs to be incurred each year. GGT's revised proposed expenditure for SoCI was $6.47 million for AA5. The ERA accepted GGT's proposed expenditure for SoCI in AA5.

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

The ERA has determined that one step change should be accepted in full, one accepted in part and one be excluded as it does not meet the criteria for inclusion. As a result, the ERA has determined a total of $4.06 million in step changes in GGT's operating expenditure in AA5 for the three step changes proposed by GGT.

In addition to the three step changes proposed by GGT, the ERA has determined an additional step change be included in GGT's operating expenditure forecast for AA5. This step change relates to an asset utilisation charge to account for GGT's use of APA capital assets during the AA5 period. This asset utilisation charge step change for AA5 is $10.30 million.

Trends

GGT has included operating expenditure to account for forecast increases in real labour costs in AA5 (costs in addition to inflation). GGT used the ERA's preferred method for determining labour cost escalation in its revised proposal resulting in a five-year average of 0.58 per cent.

As a result, GGT's approved labour cost escalation of operating expenditure in AA5 is $1.71 million.

Final decision operating expenditure

The ERA has determined that the total efficient amount for operating expenditure for AA5 is $132.42 million.

Summary of Required Amendments

5.1 The access arrangement information must be amended to reflect a forecast operating expenditure for AA5 of $132.42 million ($ million real at 31 December 2023).

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.[1]

2. Under the regulatory framework, operating expenditure means:

> Operating, maintenance and other costs and expenditure of a non-capital nature incurred in providing pipeline services and includes expenditure incurred in increasing long-term demand for pipeline services and otherwise developing the market for pipeline services.[2]

3. A forecast of operating expenditure is one of the components (or building blocks) for determining the service provider's total revenue requirement using the building block approach, which is required by the regulatory framework set out in the NGR.[3] The total revenue requirement is the amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline (that is, the service provider's cost of service).

4. The criteria governing operating expenditure is set out in rule 91:

   - The operating expenditure must be expenditure such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable costs of delivering pipeline services in a manner consistent with the achievement of the national gas objective.
   - The forecast of operating expenditure required must be expenditure that is allocated between reference services; other services provided by means of the covered (regulated) pipeline; and other services provided by means of uncovered (unregulated) parts of the pipeline (if any), in accordance with the allocation provisions set out in rule 93.

5. Rule 71 sets out the considerations that the regulator may and should have regard to when evaluating whether operating expenditure satisfies the governing criteria. The regulator:

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

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1 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.

2 NGR, rule 69.

3 NGR, rule 76.

ERA draft decision

6. GGT proposed $130.8 million for operating expenditure for AA5.

7. The ERA's draft decision determined a value of $109.40 million for AA5 operating expenditure.[4] The ERA used two approaches to forecast GGT's AA5 operating expenditure, being the base-step-trend method and specific forecasts.

8. GGT used its 2022 actual operating expenditure as the base year for the AA5 forecast. The ERA accepted GGT's 2022 actual operating expenditure as the most representative of revealed costs on which to forecast AA5 costs.

9. GGT's operating expenditure in 2022 was $27.3 million. To calculate its base year operating expenditure, GGT removed $3.3 million in non-recurrent expenditure and $0.8 million for security of critical infrastructure expenditure which GGT will undertake a specific forecast in AA5, resulting in annual recurrent operating costs of $23.5 million for the base year.

10. The ERA determined that an additional $3.6 million in expenditure, including corporate costs, field operations and major expenditure jobs should be removed from the base year. The ERA determined an efficient base year cost of $19.94 million for GGT's AA5 operating expenditure.

11. In its initial proposal, GGT proposed three step changes as part of its operating expenses in AA5, totalling $7.0 million. The ERA determined that only $4.1 million could be included as step changes in AA5. The ERA accepted in full GGT's safeguard mechanism initiatives of $3.5 million, accepted in part it's AA6 regulatory proposal costs of $0.6 million compared to GGT's proposal of $1.6 million and rejected in full GGT's Enterprise resource planning costs of $1.9 million.

12. GGT included input cost escalation in its operating expenditure for the forecast real growth rate in labour costs for AA5 which it valued at $2.5 million. The ERA determined an increase of only $1.9 million for forecast labour cost growth in AA5.

13. GGT specifically forecast expenditure of $3.7 million for security of critical infrastructure for AA5. The ERA accepted GGT's forecast for this expenditure category.

14. The ERA set out the following draft decision required amendment:

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

[4] In the ERA's draft decision, the required amendment set out a value of $110.90 million which was an incorrect value due to a modelling error. The correct ERA determined value was $109.40 million.

GGT response to draft decision

15. GGT did not accept the ERA's draft decision operating expenditure for the AA5 period. GGT submitted a revised proposal of $134.8 million for operating expenditure in AA5.

16. GGT maintained its approach, which was accepted by the ERA in the draft decision, of applying a base-step-trend approach to forecasting operating expenditure along with specific forecasts.

17. GGT has used 2023 actual operating expenditure as the base year for the AA5 forecast. In its initial proposal, GGT used the 2022 actual operating expenditure as its base year, as did the ERA in its draft decision.

18. GGT's operating expenditure in 2023 was $31.4 million. To calculate its base year operating expenditure, GGT removed $2.7 million in non-recurrent expenditure and $4.8 million for expenditure for which GGT will undertake specific forecasts in AA5, resulting in annual recurrent operating costs of $23.9 million for the base year. This was $0.4 million higher than GGT's initial proposal and $4.0 higher than the ERA's draft decision.

19. GGT has proposed the same three step changes as it did in its initial proposal, again to the value of $7.0 million. The step changes proposed are GGT's safeguard mechanism initiatives of $3.5 million, AA6 regulatory proposal costs of $1.6 million and GGT's enterprise resource planning costs of $1.9 million.

20. GGT accepted the ERA's draft decision for input cost escalation for labour cost growth. GGT has applied this to the percentage of base year operating expenditure that incurs labour costs. GGT has included $1.7 million in input cost escalation in its revised proposal.

21. GGT has again specifically forecast its expenditure for security of critical infrastructure as it did in its initial proposal. In its revised proposal, GGT has forecast expenditure of $6.5 million for AA5. This is $2.8 million higher than GGT's initial proposal which the ERA accepted in the draft decision.

22. Table 5.1 shows the determination of GGT's proposed adjusted 2023 base year.

Table 5.1: GGT proposed adjusted 2023 base year ($ million real as at 31 December 2023)

Base year	Amount
2023 operating expenditure base year	32.46
Add: increase due to NGI	0.09
Less: corporate cost adjustment	(1.19)
2022 base year (including NGI)	**31.37**
Less – specifically forecast:	
SoCI	(1.55)
AA5 preparation costs	(0.58)
ERP	(2.65)
Less – non-recurring costs:	
Demand side management	(0.10)
APA operations management fee	(1.18)
APA commercial management fee	(1.38)
Adjusted 2023 base year	**23.93**

Source: GGP 2025-29 Access Arrangement Revised Proposal - Overview, September 2025, Table 5.9, p. 60.

23. Table 5.2 shows GGT's proposed adjusted 2023 base year operating expenditure for the AA5 period according to the base-step-trend method combined with specific forecasts, broken down into the base-step-trend components.

Table 5.2: GGT proposed forecast operating expenditure for AA5 ($ million real as at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Starting base year	**23.93**	**23.93**	**23.93**	**23.93**	**23.93**	**119.66**
Add: Specific forecasts						
SoCI cyber	1.54	1.39	1.25	1.15	1.15	6.47
Base year forecast	**25.47**	**25.32**	**25.18**	**25.08**	**25.08**	**126.13**
Add: Step changes						
Safeguard mechanism	0.55	0.70	0.72	0.73	0.77	3.48
AA6 regulatory proposal	0.00	0.18	0.28	0.85	0.28	1.59
Enterprise resource planning	0.47	0.43	0.38	0.33	0.32	1.93
Add: Real labour cost escalation						
Labour cost	0.17	0.25	0.34	0.43	0.51	1.71
Total forecast operating expenditure	**26.66**	**26.89**	**26.90**	**27.42**	**26.96**	**134.84**

Source: GGP 2025-29 Access Arrangement Revised Proposal - Overview, September 2025, Table 5.19, p. 68.

Final decision

24. The ERA received no submissions from interested parties addressing matters related to GGT's operating expenditure forecasts.

25. The ERA's final decision is set out below broken down by the base-step-trend components, along with specific forecasts for SoCI expenditure and an operating expenditure asset utilisation charge to account for GGT's usage of APA's shared capital expenditure.

Base year assessment

26. GGT has proposed to use its 2023 actual operating expenditure as the starting point to derive the efficient base year.

27. GGT's unadjusted 2023 base year value is $32.46 million.

28. GGT has proposed three adjustments to the base year costs to remove non-recurrent costs to the value of $2.66 million (see Table 5.1 on page 6).

29. The ERA has reviewed these three adjustments and considers it likely that the deductions are representative of the non-recurrent costs incurred, and that GGT has appropriately removed these costs from its base year operating expenditure.

Base year – NGI adjustment

30. As it did in its initial proposal, GGT has made an adjustment to its base year expenditure to take into account the forecast increase in capacity from the NGI. GGT made this adjustment because shared costs between the covered and uncovered GGP are allocated based on the ratio of respective contracted capacity and the NGI will increase the proportion of covered capacity in the AA5 period.

31. GGT applied the same methodology to the 2023 base year, however, the allocator used for this adjustment was updated from 60 per cent in the initial proposal to 58 per cent to account for the updated (and lower) demand forecasts for the NGI receipt point over the AA5 period. Table 5.3 below shows GGT's 2023 base year unadjusted and then adjusted for the NGI demand forecasts.

Table 5.3: GGT NGI demand adjustment to operating expenditure base year ($ million real 2023)

Category	2023 - unadjusted	2023 – with NGI adjustment
Pipeline operations	17.04	17.08
Major expenditure jobs	0.20	0.20
Commercial operation	0.66	0.71
Regulatory costs	1.10	1.10
Corporate costs	13.47	13.47
Total	**32.46**	**32.55**

Source: GGP 2025-29 Access Arrangement Revised Proposal - Overview, September 2025, Table 5.5, p. 58.

32. As it determined in the draft decision, the ERA considers it reasonable that there would be increased costs for servicing the additional customers provided through the NGI connection in some categories associated with the increase in capacity as a result of the NGI and the increased demand on the covered GGP.

33. Accordingly, the ERA determines that GGT's proposed increase in base year expenditure as a result of the NGI capacity increase meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Pipeline operations costs

34. In the draft decision, the ERA removed $7.57 million of forecast expenditure from GGT's forecast pipeline operations costs, reducing GGT's AA5 proposal from $75.00 million down to $67.43 million. GGT did not accept the ERA's determination of reduced base year costs for pipeline operations.

35. In the draft decision, the ERA reduced GGT's base year expenditure by $1.41 million per year. GGT had stated that the APA operations costs which form part of the overall pipeline operations costs were higher due to increased operations and maintenance activity along the GGP which is carried out entirely by contractors which had higher costs.

36. In its revised proposal, GGT has proposed $74.28 million for pipeline operations costs in the AA5 period, a reduction of $0.72 million from its initial proposal and $6.85 million higher than the ERA's draft decision.

37. The ERA accepted that the increased labour cost portion of the expenditure was valid and that those higher labour costs would be maintained in AA5. The ERA did not consider that GGT had adequately justified the total sustained increase in costs for the APA operations. While there was an increase in field operations due to increased operations and maintenance, and higher contractor costs, there was no evidence to suggest that these increases would continue into AA5 at the same levels.

38. EMCa has reviewed GGT's revised proposal for pipeline operations costs, including the actual 2023 costs which are now available. EMCa noted that the operations – field services costs were lower in 2023 compared to 2022 by $0.21 million and that the last three years of costs for operations – field services have averaged around $12 million

which it now considers can more reasonably be considered the ‘new normal’ for this expense category.

39. EMCa considered that, combining consideration of the updated expenditure with the explanations that GGT previously provided for expenditure increasing relative to levels pre-2021, the APA operations expenditure allowance in GGT’s revised proposal is reasonable.

40. From a review of GGT’s proposals and the provision of the 2023 actuals which has demonstrated a continued higher trend in operations – field services costs, the ERA considers that the 2023 base year proposed by GGT is reasonable and represents a prudent forecast for the AA5 period.

41. The ERA has determined that GGT’s proposed base year expenditure for pipeline operations costs of $14.52 million meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Major expenditure jobs

42. In the draft decision, the ERA removed $1.56 million of forecast expenditure from cost category major expenditure jobs. GGT did not accept the ERA’s determination of base year costs of $0.19 million using historical averages.

43. GGT has accepted that its forecast in its initial proposal was higher than required.

44. GGT has updated its major expenditure jobs base year costs using 2023 as a basis which results in a forecast of $0.21 million per year or $1.05 million over the AA5 period.

45. The ERA has reviewed GGT’s major expenditure jobs base year expenditure and notes that it is broadly consistent with GGT’s historical average which the ERA calculated in the draft decision. The ERA considers that GGT’s 2023 base year value for major expenditure jobs is representative and can be used as a forecast of AA5 expenditure.

46. The ERA has determined that GGT’s proposed base year expenditure for major expenditure jobs of $0.21 million meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Corporate costs

47. In the draft decision, the ERA removed $1.87 million of forecast expenditure from GGT’s base year corporate costs. GGT did not accept the ERA’s determination to reduce base year corporate costs.

48. In its revised proposal, GGT notes that the corporate costs allocated to the covered GGP in 2023 were $13.47 million, up from $7.89 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.

49. In addition, APA has continued its investment in transformation programs including, the implementation of a new enterprise resource planning program and SoCI cyber expenditure. The expenditure for both of these programs have been removed from the base year corporate costs and are forecast separately in GGT’s revised proposal.

50. GGT also notes that in addition to the transformation projects, it has also reviewed the ‘other’ corporate costs to understand if the 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. GGT notes that 2020 and 2021 were excluded from this average as they were impacted by Covid-19 which disrupted normal operations. In smoothing over the 2 years, GGT reduced the base year by $1.2 million. GGT’s base year total for corporate costs in its revised proposal is $8.08 million.

51. The ERA has reviewed GGT’s revised proposal, including its significantly higher 2023 actual corporate costs. The ERA notes that in its revised proposal GGT considers that its 2023 actual expenditure value is not representative of an efficient base year value of expenditure and has smoothed its proposed value by averaging 2022 and 2023 costs.

52. The ERA agrees that GGT’s 2023 actual expenditure is not an efficient and reasonable value on which to base its AA5 period forecast expenditure. The ERA considers that a 4-year average of the AA4 period costs is a more representative value on which to base AA5 expenditure. The ERA notes GGT’s statement that 2020 and 2021 were impacted by Covid-19 and not ‘normal operations’, however, the ERA considers that during that period the pipeline operated as normal and fulfilled its contractual obligations safely.

53. As a result, the ERA considers that a 4-year average of other corporate costs is the most reasonable basis to determine future corporate costs. A 4-year average results in a base year value of $5.43 million for corporate costs excluding transformation.

54. As noted by GGT, the transformation expenditure is predominantly made up of SoCI cyber and ERP costs with the remaining value categorised as transformation – other. As SoCI cyber and ERP are both forecast separately, the ERA has removed these from the transformation expenditure total, leaving only transformation – other costs. These transformation – other costs have been increasing over the AA4 period.

55. GGT has not made an adjustment to its transformation base year costs (other than to remove the SoCI cyber and ERP costs) but has kept the transformation – other 2023 actual cost in its base year. These costs are $1.88 million in 2023 compared to $0.64 million in 2022.

56. As was the case with GGT’s other corporate costs, the ERA considers that the 2023 transformation – other costs are not representative of the costs to be incurred going forward into AA5. The ERA has determined that as with the other corporate costs, a 4-year average is the most appropriate method for determining a reasonable estimate of transformation – other costs in the AA5 period.

57. Using a 4-year average results in a base year value for transformation – other of $0.70 million per year.

58. Adding the other corporate costs, $5.43 million, and transformation – other costs of $0.70 million results in a base year value of $6.13 million for GGT’s base year corporate costs.

59. As a result, the ERA has determined that $6.13 million of GGT’s proposed base year expenditure for corporate costs meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Commercial operations

60. In the draft decision, the ERA accepted GGT's base year expenditure forecast of $0.79 million for commercial operations which was in line with historical averages for this cost category. This value was based on GGT's 2022 actual operating expenditure.

61. In its revised proposal, GGT has used its 2023 actual expenditure as its base year. In 2023, GGT's commercial operations expenditure was $0.60 million, made up of the NGI adjusted value of $0.71 million less the removal of non-recurring costs relating to demand side management of $0.10 million.

62. The ERA has reviewed GGT's proposal of $0.60 million for commercial operations and considers this value to be representative of forecast AA5 expenditure.

63. The ERA has determined that GGT's proposed base year expenditure for commercial operations of $0.60 million meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Base year – Regulatory costs

64. In the draft decision, the ERA accepted GGT's base year expenditure forecast of $0.55 million per year for regulatory costs, excluding the costs to prepare its regulatory proposal which were removed from the base year and included separately as a step change.

65. GGT accepted the ERA's draft decision which used GGT's 2022 base year regulatory costs (excluding the costs to prepare its regulatory proposal). In its revised proposal, GGT has proposed to use its 2023 actual expenditure for regulatory costs (excluding regulatory proposal costs) of $0.52 million per year.

66. The ERA has reviewed GGT's revised proposal and notes that the proposed value using 2023 actuals is slightly lower than its initial proposal which used 2022 actuals. However, the forecast value is consistent with the previous 5-year average of $0.51 million from 2017 to 2021.

67. The ERA has determined that GGT's proposed base year expenditure for regulatory costs of $0.52 million meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Specific forecast expenditure

SoCI expenditure

68. In the draft decision, the ERA accepted GGT's proposed operating expenditure of $3.71 million to meet its obligations under the *Security of Critical Infrastructure Act 2018.*

69. In the draft decision the ERA determined that SoCI expenditure was required expenditure for GGT under the SoCI Act and that the specifically forecast expenditure value for the AA5 period was an efficient level of expenditure.

70. In its revised proposal, GGT has proposed operating expenditure in AA5 of $6.47 million, an increase of $2.76 million from its initial proposal.

71. GGT notes that this increase in expenditure is not an increase in the total amount to be spent in its SoCI cyber program but a reallocation of funds previously classified as capital expenditure in its initial proposal to now be treated as operating expenditure in its revised proposal.

72. The total SOCI operating and capital expenditure proposed in GGT's initial proposal of $7.5 million (split between operating $3.7 million and capital $3.8 million) is the same in its revised proposal being $7.5 million in total (split between operating $6.5 million and capital $1.0 million).

73. GGT explained that the change was from APA finance's treatment of this expenditure, which it interpreted to be operating expenditure rather than capital expenditure which is in line with the latest accounting standards on IT expenditure.

74. As a result, GGT has decided to adjust the ratio of forecast capital expenditure and operating expenditure using the actual 2023 capital expenditure and operating expenditure for SoCI cyber. GGT notes no change has been made to the total forecast, only the accounting treatment of this expenditure and this will ensure that the forecasts for the AA5 period will match APA's internal treatment of this expenditure.

75. The ERA has reviewed GGT's revised proposal and the change in accounting treatment of its forecast SoCI cyber expenditure. As determined in the draft decision, the ERA considers that SoCI expenditure is required expenditure for GGT under the SoCI Act.

76. The ERA notes that total proposed SoCI cyber expenditure has not increased, and this is purely a change in accounting treatment to align with the latest accounting standards on IT expenditure.

77. As a result, the ERA considers that the proposed value of $6.47 million is a reasonable forecast of GGT's operating expenditure requirement for SoCI cyber in the AA5 period.

78. The ERA has determined that $6.47 million of GGT's proposed expenditure for SoCI meets the criteria under rule 91 of the NGR to be included as operating expenditure in the AA5 period.

Step changes

79. In its revised proposal, GGT has forecast three step changes to operating expenditure for the AA5 period as outlined in Table 5.4.

Table 5.4: GGT revised proposal operating expenditure step changes for AA5 ($ million real at 31 December 2023)

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

Source: GGP 2025-29 Access Arrangement Revised Proposal - Overview, September 2025, Table 5.15, p. 64.

Safeguard mechanism initiatives

80. In the draft decision, the ERA approved GGT's initial proposal of $3.48 million for safeguard mechanism initiatives. GGT has accepted the ERA's draft decision.

81. In its revised proposal, GGT has made no changes to its initial proposal for safeguard mechanism initiatives, again proposing expenditure of $3.48 million in AA5.

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

AA6 regulatory proposal preparation costs

83. In the draft decision, the ERA did not accept GGT's proposed step change for GGT's AA6 regulatory proposal preparation costs. The ERA removed $1.0 million from GGT's proposal and approved a value of $0.59 million.

84. The ERA did consider that a step change was required to provide an adequate allowance to GGT to meet its regulatory requirements in the AA5 period but that GGT had not adequately justified its proposed step change of $1.59 million on top of its base year expenditure.

85. GGT did not accept the ERA's draft decision regarding its AA6 regulatory proposal preparation costs. GGT has again included a step change in its revised proposal. This step change is the same as it proposed in its initial proposal.

86. GGT has not taken into account the actual costs it has incurred in 2023 in preparing the AA5 regulatory proposal. GGT incurred $0.58 million in 2023 and has removed these costs from the base year and based its step change on forecast expenditure that is not linked to its actual expenditure.

87. GGT noted that the AA5 preparation costs were $0.58 million 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 $0.85 million. GGT notes that this means that it is asking for an additional $0.27 million for AA6 preparation costs in this equivalent year. GGT considers this reasonable after factoring in costs included in the step change that are not captured in 2023's costs. GGT notes that 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 $0.58 million)
    - Technical support – Capex/SIB – consultant costs were incurred in 2023 but no internal costs were recorded.

88. The ERA has reviewed GGT's revised proposal step change for AA6 regulatory proposal preparation costs, which has not changed from its initial proposal despite having incurred actual costs in 2023 which could have been used to inform its AA6 proposal costs.

89. GGT noted in its revised proposal that in 2028 it is seeking $0.85 million (compared to the $0.58 million GGT actually incurred in 2023, the equivalent fourth year of a

regulatory period). However, GGT is also seeking an additional $0.74 million in total for the two prior years (2026/2027) and for 2029, well above the 2023 actual value of $0.58 million with no other preparation costs being incurred in 2021 or 2022 (equivalent years to 2026/2027 in a regulatory period)

90. In addition, the ERA notes that as set out in paragraph 87 above, GGT claims to have incurred legal compliance fees. However, these costs have not been included in GGT's forecast 2024 operating expenditure regulatory costs, nor has GGT advised the ERA of these costs in its revised proposal (submitted to the ERA in September 2024) despite the costs being incurred in January 2024.

91. In the draft decision, the ERA did not consider that GGT adequately justified its proposed step change of $1.59 million for its AA6 regulatory proposal preparation costs.

92. In the absence of additional information, the ERA considers that actual costs incurred by GGT in preparing the AA5 regulatory proposal are the best estimate on which to forecast future regulatory proposal preparation costs.

93. The ERA has determined that $0.58 million of GGT's proposed step change expenditure for regulatory proposal preparation costs meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA5 period.

Enterprise resource planning upgrade

94. In the draft decision, the ERA did not accept GGT's proposed step change of $1.93 million for its enterprise resource planning upgrade. Based on the lack of information and high likelihood that the project would change in value and timelines when the business case was firmed up, the ERA considered that the proposed step change for the enterprise resource planning project did not satisfy the operating expenditure criteria for inclusion in the AA5 operating expenditure.

95. GGT did not agree with the ERA's draft decision. GGT notes that to ensure that there is no double counting of ERP costs, it has removed the ERP related costs from the 2023 base year costs. GGT has also replaced the actual costs with the forecast in the initial proposal ($1.93 million) and notes that the ERP step change is based on a forecast provided in GGT's initial proposal which is lower than the actual 2023 ERP cost.

96. EMCa has reviewed GGT's revised proposal ERP costs. EMCa noted that GGT has now addressed its concerns that it had regarding possible double counting.

97. GGT provided a final version of its ERP business case in response to an information request from EMCa. This business case includes updated costs and benefits from the preliminary draft provided in its initial proposal and allows for a more robust assessment of costs and benefits between GGT's preferred 'option 4' and 'option 1', being the 'do nothing' scenario.

98. EMCa observed that there is relatively little difference in the ongoing costs of the new ERP relative to the existing ERP related ongoing costs. The average annual cost difference is $0.16 million per year.

99. EMCa also noted that the APA business case quantifies financial benefits that it expects to realise from option 4, however, these are only quantified to 2027. EMCa noted it is unclear why they would not be expected to continue. After these benefits are taken into account the net average annual additional cost of the new ERP is only $0.09 million per year.

100. EMCa considers that the ERP step change is not justified because the net incremental cost is minimal after accounting for benefits realisation. EMCa considers the step change of $1.93 million is not justified and EMCa recommends no step change allowance for GGT from the introduction of its preferred ERP solution.

101. The ERA has reviewed GGT's revised proposal. The ERA can see no justification from GGT as to why the financial benefits that are expected to be realised from the introduction of option 4 would cease in 2028 and onwards. Without this information it is not possible for the ERA to be satisfied that a step change, which would have only been $0.09 million per year, is required for the ERP introduction as the financial benefits realised from the introduction of option 4 are increasing in each year from 2025 to 2027 before abruptly ceasing.

102. The ERA considers that GGT has not provided reasonable evidence to justify the proposed step change for its ERP expenditure.

103. The ERA determines that based on the lack of substantiation provided by GGT in its revised proposal, the proposed step change of $1.93 million for the enterprise resource planning project does not satisfy the operating expenditure criteria of rule 91 of the NGR for inclusion in the AA5 operating expenditure.

Asset utilisation charge

104. As set out in Attachment 4 – Regulatory Capital Base, the ERA has not approved GGT's revised AA5 shared capital expenditure. The ERA has determined that these costs should be regarded as operating expenditure for the detailed reasons set out in Attachment 4.

105. 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 should be charged as operating expenditure to GGT.

106. This has been added to the AA5 operating costs and, although the ERA considers that there may be alternative, more equitable or 'smoothed' options for determining the expensed amount of the asset utilisation charge, given the time constraints of the access arrangement review process, the amount for this access arrangement review will be expensed in the year it is incurred.

107. As a result, the ERA has determined that $10.30 million should be added to GGT's operating expenditure as a non-recurring step change as set out below in Table 5.5.

Table 5.5: ERA final decision AA5 shared capital expenditure to be transferred to operating costs ($ million real 2023)

Step changes	2025	2026	2027	2028	2029	Total
IT/OT	2.57	1.12	0.36	0.25	0.17	4.47
Cyber security	0.21	0.19	0.17	0.15	0.15	0.87
Other	0.99	0.99	0.99	0.99	0.99	4.97
Total	**3.77**	**2.30**	**1.52**	**1.40**	**1.31**	**10.30**

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

Cost escalation

108. In the draft decision, the ERA considered it reasonable to include a cost escalation factor in GGT's operating expenditure forecast to account for increases in labour and materials costs above inflation in the AA5 period.

109. GGT has accepted the ERA's methodology used in the draft decision to determine labour cost escalation.

110. To calculate the best forecast of real labour escalation, the ERA used the average of recent and forecast Western Australian Treasury WPI growth and CPI growth. This results in a real labour escalation factor of 0.58 per cent as set out below in Table 5.6.[5]

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

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

Source: ERA analysis.

111. Using the 0.58 per cent real labour cost escalation value, the included value for labour escalation in the AA5 period is $1.71 million.

Final decision amendments summary

112. As outlined above, the ERA has determined that operating expenditure for the AA5 period is $132.42 million as set out in Table 5.7.

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

Category	2025	2026	2027	2028	2029	Total
Pipeline operation	14.69	14.77	14.86	14.94	15.03	74.29
Major expenditure jobs	0.21	0.21	0.21	0.21	0.21	1.05
Commercial operation	1.16	1.31	1.33	1.34	1.38	6.52
Regulatory costs	0.52	0.52	0.52	1.09	0.52	3.17
Corporate costs	11.43	9.82	8.90	8.68	8.59	47.42
Total	**28.00**	**26.63**	**25.81**	**26.26**	**25.72**	**132.42**

Source: ERA analysis.

[5] Derived by using the Fisher equation, not via subtraction.

Required Amendment

5.1 The access arrangement information must be amended to reflect a forecast operating expenditure for AA5 of $132.42 million ($ million real at 31 December 2023).

Appendix 1 List of Tables