Economic Regulation Authority

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

Attachment 6: Depreciation

18 December 2024

D284889

Acknowledgement of Country

At the ERA we value our cultural diversity and respect the traditional custodians of the land and waters on which we live and work.

We acknowledge their continuing connection to culture and community, their traditions and stories. We commit to listening, continuously improving our performance and building a brighter future together.

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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
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  - Attachment 4: Regulatory capital base
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Attachment 6. Summary

Depreciation of the capital base is one revenue component of the total revenue GGT has proposed for the AA5 regulatory period and allows for the recovery of approved capital expenditure over time.

GGT's AA5 revised proposed approach to calculating depreciation includes two parts:

- *Base depreciation allowance*: GGT accepted the ERA's draft decision for calculating a base level of depreciation by maintaining the current depreciation approach used in AA4 that continued the straight line depreciation of assets. However, GGT did not accept the ERA's draft decision on capital expenditure and proposed a base level of depreciation of $97.8 million ($ real, 2023) over the access arrangement period.
- *Asset life cap*: GGT accepted the ERA's draft decision to cap asset lives at the weighted average remaining life of the pipeline and laterals asset class. GGT included an additional $0.3 million ($ real, 2023) of revenue by capping asset lives.

The ERA has accepted the continued use of straight line depreciation for GGT's base depreciation allowance.

The ERA has calculated base depreciation based on approved capital expenditure which amounts to $72.3 million over the access arrangement period.

The ERA has considered GGT's asset life cap proposal and has accepted the proposed method. The asset life cap approach is consistent with providing a reasonable opportunity to recover efficient capital expenditure; and would support efficient investment in the pipeline to maintain a safe and reliable pipeline to service customers over its remaining economic life.

Asset capping will only affect around 12 per cent of the revised proposed capital expenditure, where affected capital expenditure amounts to approximately 1 per cent of the regulatory asset base. Accordingly, this will not have a material impact on consumption or tariffs.

The asset life cap proposal results in a small $0.3 million ($ real, 2023) increase in revenue for AA5.

The reasons for the ERA's final decision in respect of the matters relevant to depreciation and details of the required amendment are set out in this attachment.

Summary of Required Amendments

6.1 GGT must amend the forecast depreciation of the capital base for AA5 to $72.6 million (real as at 31 December 2023). The yearly values for each year of the access arrangement period are as set out in Table 6.7 of this Final Decision Attachment 6.

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. Depreciation on the capital base is one of the components (building blocks) for determining the service provider's total revenue requirement using the "building block" approach, which is required by the NGR.[2] The total revenue requirement is the amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline (the service provider's cost of service).

3. Rules 88 to 90 set out the following provisions for depreciation:

    - Depreciation schedule (rule 88):
        - The depreciation schedule sets out the basis on which the pipeline assets that form the capital base are to be depreciated for the purpose of determining a reference tariff. The schedule may consist of several separate schedules that each relate to a particular asset or class of assets.
    - Depreciation criteria (rule 89):
        - The depreciation schedule should be designed:
            - So that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for refence services.
            - So that each asset or group of assets is depreciated over the economic life of that asset or group of assets.
            - To allow, as far as reasonably practicable, for adjustments that reflect changes in the expected economic life of a particular asset or group of assets.
            - So that, subject to the rules about capital redundancy, an asset is depreciated only once.
            - To allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.
        - Compliance with the depreciation criteria may involve the deferral of a substantial proportion of depreciation, particularly where the present market for pipeline services is immature; the reference tariffs have been calculated on the assumption of significant market growth; and the pipeline has been designed and constructed to accommodate future growth in demand.
    - Calculation of depreciation for rolling forward the capital base from one access arrangement period to the next (rule 90):
        - An access arrangement must contain provisions that govern the calculation of depreciation for establishing the opening capital base for the next access arrangement period. These provisions must resolve whether depreciation of the capital base is to be based on forecast or actual capital expenditure.

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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 76.

ERA draft decision

4. GGT's initial proposal for regulatory depreciation included two parts:

   - *Base straight line depreciation:* GGT maintained the current depreciation approach used in AA4 and calculated a base level of depreciation. This approach continues the straight line depreciation of assets using the remaining economic lives for the initial capital base. This proposed base level of depreciation was a total of $100.9 million ($ real 2023) over the access arrangement period.
   - *Asset life cap:* GGT proposed to cap asset lives at the weighted average remaining life (WARL) of the pipeline and laterals asset class. GGT included an additional $340,000 of revenue by capping asset lives for assets.

5. The ERA's draft decision on both components is detailed below.

Base depreciation allowance

6. The ERA accepted GGT's approach to calculate its base level of depreciation, which is consistent with its existing approach.

7. While GGT has proposed two new capital expenditure categories for shared support assets, the ERA considered that such expenditure was non-conforming and as such did not accept GGT's asset life proposal for that expenditure.

8. The ERA estimated forecast depreciation for the revised levels of capital expenditure in the draft decision for AA5, which resulted in regulatory depreciation of $69.4 million ($ real 2023) as set out in Table 6.1.

Table 6.1: ERA draft decision for AA5 base regulatory depreciation ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Pipeline and laterals	8.8	8.8	8.8	8.8	8.8	44.0
Main line valve and scraper stations	0.3	0.3	0.3	0.4	0.4	1.7
Compressor stations	2.2	2.6	2.7	2.9	2.9	13.3
Receipt and delivery point facilities	0.0	0.1	0.1	0.1	0.1	0.4
SCADA and communications	0.6	0.4	0.2	0.2	0.2	1.6
Cathodic protection	0.0	0.0	0.0	0.0	0.0	0.0
Maintenance bases and depots	0.2	0.3	0.3	0.3	0.3	1.4
Other assets	0.4	1.4	1.7	1.7	1.7	6.9
Equity raising cost	0.0	0.0	0.0	0.0	0.0	0.0
Base depreciation	**12.4**	**13.9**	**14.2**	**14.4**	**14.5**	**69.4**

Source: ERA tariff model, ERA analysis.

Asset life cap

9. GGT proposed to cap asset lives at the WARL of the pipeline and laterals asset class. This has the effect of limiting the maximum economic life of any asset to 2065. The net effect of GGT's proposal was to ensure that no asset class will have an asset life greater than the pipeline and laterals asset class WARL, but assets that have a life below the WARL are unaffected.

10. GGT's asset life cap proposal resulted in small $0.2 million (real, 2023) increase in revenue for AA5.

11. The national gas objective requires the consideration of economic efficiency, where the choice of depreciation can promote price signals to guide the efficient use of, and investment in, gas pipelines. The revenue and pricing principles also require the service provider to be given a reasonable opportunity to recover efficient costs.

12. Rule 89 of the NGR details that the depreciation schedule should be designed to allow, as far as reasonably practicable, for adjustments that reflect changes in the expected economic life of a particular asset or group of assets.

13. The ERA considered that the asset life cap approach is consistent with providing a reasonable opportunity to recover efficient capital expenditure and would support efficient investment in the pipeline to maintain a safe and reliable pipeline to service customers over its remaining economic life.

14. As required by the NGR, economic lives can be re-evaluated and updated from one access arrangement period to the next to reflect the best information available.

15. The ERA considered that the capped asset life approach as proposed by GGT is capable of preserving investment incentives, which are in the long-term interests of consumers with respect to quality and safety. Accordingly, the ERA considered that capping asset lives was reasonable and supported efficient outcomes under the NGL and NGR. This would provide GGT with a reasonable opportunity to recover efficient capital expenditure and is unlikely to have a material impact on customers during AA5 as the increase in revenue was limited to $0.2 million ($ real, 2023).

Forecast depreciation

16. The ERA's draft decision of forecast regulatory depreciation allowance is detailed in Table 6.2.

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

> 6.1 GGT must amend the forecast depreciation of the capital base for AA5 to $69.6 million (real as at 31 December 2023). The yearly values for each year of the access arrangement period are set out in Table 6.5 of Draft Decision Attachment 6 [Table 6.2 of this Final Decision Attachment 6].

Table 6.2: ERA draft decision for AA5 regulatory depreciation ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Base depreciation	12.4	13.9	14.2	14.4	14.5	69.4
Add: Changes due to capping asset life	0.0	0.1	0.1	0.0	0.0	0.2
Regulatory depreciation - total	**12.4**	**14.0**	**14.3**	**14.4**	**14.5**	**69.6**

GGT response to draft decision

18. GGT's revised proposal for regulatory depreciation included two parts:

- *Base straight line depreciation*: GGT accepted the ERA's draft decision on the approach and method, but did not accept the ERA's draft decision on shared capital expenditure and has included it for its revised proposal. This results in a base level of depreciation of $97.8 million ($ real 2023) over the access arrangement period.
- *Asset life cap*: GGT accepted the ERA's draft decision on capped asset lives and has included regulatory depreciation of $0.3 million ($ real 2023) over the access arrangement period.

Base straight line depreciation

19. GGT accepted the ERA's base depreciation approach and calculated an updated base level of depreciation due to additional capital expenditure in its revised proposal.

20. GGT calculated the depreciation on its regulated asset base (RAB) with the straight line method approach as set out in Table 6.3.

Table 6.3: GGT revised proposal for AA5 base regulatory depreciation ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Pipeline and laterals	8.7	8.7	8.7	8.7	8.7	43.7
Main line valve and scraper stations	0.3	0.3	0.4	0.4	0.4	1.8
Compressor stations	2.4	2.8	2.9	3.1	3.1	14.3
Receipt and delivery point facilities	0.1	0.2	0.2	0.2	0.2	0.7
SCADA and communications	0.9	0.7	0.6	0.6	0.5	3.3
Cathodic protection	(0.0)	0.0	0.0	0.1	0.1	0.2
Maintenance bases and depots	0.3	0.3	0.3	0.3	0.3	1.5
Other assets	0.5	1.5	1.7	1.7	1.7	7.2
Equity raising cost	0.0	0.0	0.0	0.0	0.0	0.0
Shared support assets - ITOT & cyber security	7.1	5.4	4.5	3.1	2.2	22.4
Shared support assets - net ITOT & cyber security	0.4	0.5	0.6	0.6	0.7	2.8
Total	**20.7**	**20.4**	**19.9**	**18.8**	**18.0**	**97.8**

Source: GGT revised proposal Tariff Model.

Note: Depreciation amounts may be negative due to categories that have a negative balance which are corrected through an adjustment in depreciation. This is the case for Cathodic Protection.

21. GGT's revised capital expenditure has a material effect on depreciation. Compared with the draft decision, GGT's revised proposal includes changes that result in a net increase of $28.4 million ($ real 2023). This is largely due to GGT not accepting the ERA's decision to allow shared capital expenditure, where GGT has proposed $25.4 million ($ real 2023).

22. As required by the NGR, GGT has also proposed the forecast depreciation approach to be used for calculating the opening capital base for the next (AA6) access arrangement period.

Asset life cap

23. GGT accepted the ERA's draft decision on the asset life cap.

24. GGT's revised proposal has included $0.3 million ($ real 2023) of depreciation due to the asset life cap. The asset life cap results in the economic lives set out in Table 6.4.

Table 6.4: GGT revised proposal for asset lives for AA5 (years)

Asset categories	AA4	AA5 initial proposal	AA5 revised proposal
Pipeline and laterals	70	41, capped at 2065 (reduced)	41, capped at 2065 (reduced)
Main line valve and scraper stations	50	41, capped at 2065 (reduced)	41, capped at 2065 (reduced)
Compressor stations	30	30 (unchanged)	30 (unchanged)
Receipt and delivery point facilities	30	30 (unchanged)	30 (unchanged)
SCADA and communications	10	10 (unchanged)	10 (unchanged)
Cathodic protection	15	15 (unchanged)	15 (unchanged)
Maintenance bases and depots	50	41, capped at 2065 (reduced)	41, capped at 2065 (reduced)
Other assets	10	10 (unchanged)	10 (unchanged)
Equity raising cost	33	32 (unchanged)	25 (reduced)
Shared support assets - ITOT & cyber security	NA	5	5 (unchanged)
Shared support assets - net ITOT & cyber security	NA	20	20 (unchanged)

Source: GGT, Revised proposal: Tariff Model.

Forecast depreciation

25. Table 6.5 sets out GGT's revised proposed regulatory depreciation amounts for the access arrangement period.

Table 6.5: GGT revised proposal for regulatory depreciation for AA5 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Base depreciation	20.7	20.4	19.9	18.8	18.0	97.8
Add: Changes due to capping asset life	0.0	0.0	0.1	0.1	0.1	0.3
Total regulatory depreciation	**20.7**	**20.5**	**20.0**	**18.8**	**18.1**	**98.1**

Final decision

26. The ERA received no submissions from interested parties regarding regulatory depreciation.

27. Regulatory depreciation is one revenue component of total revenue allowed under the national gas framework. Regulatory depreciation accounts for the recovery of previously approved capital expenditure that has been incorporated into the regulatory asset base.

Base depreciation allowance

28. The ERA has considered GGT's proposed level of depreciation for its base depreciation allowance (excluding the asset life cap).

29. The current access arrangement specified that the depreciation of the opening capital base for AA5 is the forecast depreciation included in the AA4 target revenue.

30. The ERA is satisfied that the depreciation values used in GGT's calculation of the opening capital base for AA5 are consistent with the depreciation values included in the AA4 target revenue.

31. For AA5, GGT proposed to retain the methods set out in the current access arrangement, which specify depreciation is calculated using:

    - Economic lives specified in the access arrangement consistent with AA4.
    - The straight line depreciation method as used in AA4.
    - The forecast method of depreciation for the AA6 opening capital base.

32. The ERA accepts GGT's approach to calculate its base level of depreciation, which is consistent with its existing approach.

33. GGT has proposed two new capital expenditure categories:

    - "Shared support assets - Information technology and operational technology (ITOT) and cyber security", with a proposed economic life of five years.
    - "Shared support assets - net ITOT & cyber security", with the proposed economic life of 20 years. These longer lives represent the proposed capital expenditure for a range of shared corporate costs for GGT's parent company APA Group, from national property costs, national support functions, to programs such as risk-based pressure equipment inspections, SCADA alarm rationalisation and cathodic protection.

34. Final Decision Attachment 4 discusses the ERA's decision for capital expenditure. As the shared support assets were not considered to be allowable capital expenditure, the ERA has not accepted GGT's asset life proposal for that expenditure.

35. The ERA has estimated forecast depreciation for the revised levels of capital expenditure in the final decision for AA5. Consistent with the required amendments in this final decision, the ERA has recalculated total forecast base depreciation for AA5 as $72.3 million (Table 6.6).

Table 6.6: ERA final decision for AA5 base depreciation ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Pipeline and laterals	8.7	8.7	8.7	8.7	8.8	43.7
Main line valve and scraper stations	0.3	0.3	0.4	0.4	0.4	1.8
Compressor stations	2.3	2.7	2.9	3.0	3.1	13.9
Receipt and delivery point facilities	0.1	0.2	0.2	0.2	0.2	0.7
SCADA and communications	0.9	0.7	0.6	0.6	0.6	3.3
Cathodic protection	0.0	0.0	0.1	0.1	0.1	0.2
Maintenance bases and depots	0.3	0.3	0.3	0.3	0.3	1.5
Other assets	0.5	1.5	1.7	1.7	1.7	7.2
Equity raising cost	0.0	0.0	0.0	0.0	0.0	0.0
Base depreciation	13.0	14.5	14.8	14.9	15.0	72.3

Source: ERA tariff model, ERA analysis.

Asset life cap

36. GGT proposed to cap asset lives at the WARL of the pipeline and laterals asset class. This has the effect of limiting the maximum economic life of any asset to 2065.

37. Several sections of the NGL are relevant to determining regulatory depreciation including:

- The national gas objective, which requires that the depreciation schedule should be used to create prices that promote the efficient use of the network, including recognising the long-term interest of consumers.
- The revenue and pricing principles, which provide additional guidance on economic regulation and pricing, including that:
  - A service provider should be provided a reasonable opportunity to recover at least its efficient costs, including the recovery of its regulatory asset base.
  - A regulator should have regard to the economic costs and risks of potential under- and over-investments in a pipeline, including its effect on the provision of service to future consumers.
  - A regulator should have regard to the economic costs and risk of the potential for under-use and over-use of a pipeline, including price signals that are sent to consumers.

38. Under rule 89(1) of the NGR, the depreciation schedule is also guided by the following principles to provide depreciation such that:

- Reference tariffs will vary, over time, in a way to promote efficient use of the network.

- To allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset.
- That there can be no double (or greater) recovery of invested capital.

Increased uncertainty of future demand

39. Since GGT's last access arrangement was approved in 2019, technology and policy developments have resulted in increasing levels of uncertainty around the future of natural gas use. These developments have included:

- The introduction of federal, state and corporate targets and policies to drive emissions reduction.
- Improvements in electrical equipment and technologies that can be used as substitutes for natural gas.
- Changes in customer preferences and attitudes towards decarbonisation.

Context on economic lives for gas transmission networks

40. Australian economic regulators have historically used straight line depreciation methods based on an asset's economic life.

41. Network assets' economic lives have been roughly equivalent to the technical/engineering life. Infrastructure assets generally have a longer technical life than assets for other industries, which is especially the case for gas networks in Western Australia. Historically, the economic life in Western Australia was a period of 70 years for pipeline capital expenditure. The longer economic lives in Western Australia mean that a larger proportion of the RAB is yet to be recovered.

42. In 2021, the ERA considered the increased uncertainty of gas networks in its decision on the Dampier to Bunbury Natural Gas Pipeline (DBNGP). At that time, the ERA considered that there was a likelihood that the use of the DBNGP would decline over time due to technological and policy change and accepted a proposed reduction in the economic life of the pipeline. As a result, DBP's asset life was capped to 2063.[3]

43. Other economic regulators, such as the Australian Energy Regulator (AER) have explored the regulation of gas networks under uncertainty.[4] In its review, the AER expressed a preference for using accelerated depreciation to manage this uncertainty and has recently allowed it for Victorian gas transmission network service providers.[5]

44. The future of any specific gas network, transmission or distribution, will be driven by its individual exposures to demand factors, the types of customers connected to the specific network and the technological and market factors impacting those customers.

3 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural Gas Pipeline access arrangement 2021 to 2025*, April 2021, pp. 313-357.

4 AER, *Information Paper: Regulating gas pipelines under uncertainty*, November 2021.

5 AER, *Final decision: APA VTS access arrangement 2023 to 2027 Overview*, December 2022, p. 17.

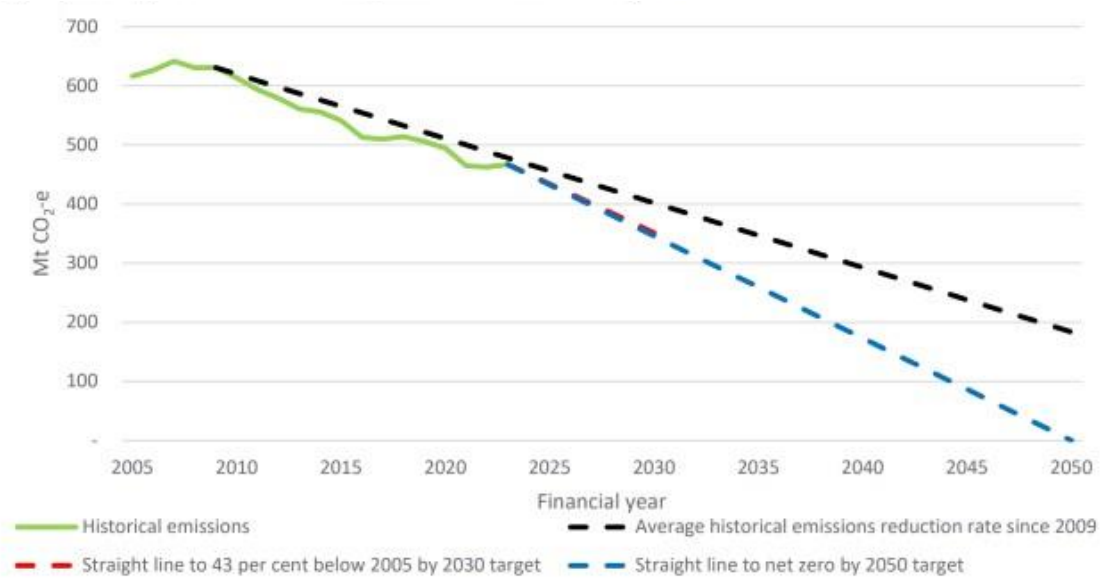
Operating environment for GGT's transmission network

45. While the operating environment for gas transmission networks is challenging to predict over the medium-to-long term due to the uncertain speed and extent of decarbonisation, Australian governments have set net zero by 2050 targets.

46. The Commonwealth Government has set both a 2030 target of 43 per cent below 2005 levels; and a net zero target by 2050, which are presented in Figure 6.1 (below).[6]

47. The Western Australian Government has announced a net zero target by 2050 and released the *Sectoral Emissions Strategy for Western Australia* in December 2023, which outlines the transition strategy to net zero emissions.[7] The strategy expects that total gas use will decline, as illustrated in Figure 6.2 (below).

Figure 6.1: Australian national emissions targets for 2030 and 2050



Source: Climate Change Authority, 2023 Annual Progress Report, October 2023, pp. 4-5.

6 AEMC, *Emissions targets statement under the National Energy Laws*, June 2024.

7 WA Government, *Sectoral emissions reduction strategy for Western Australia – Pathways and priority actions for the state's transition to net zero emissions,* December 2023.

Figure 6.2: WA Sectoral Emissions Strategy indicative change in fuel mix

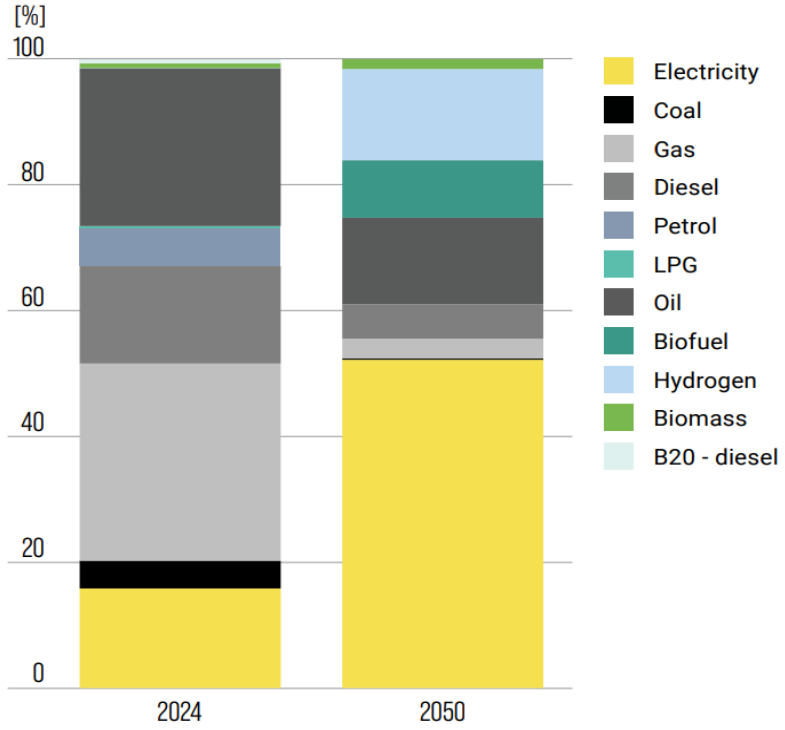


Figure 10: Indicative change in fuel mix in Western Australia from 2024 to 2050

Source: WA Government (2023), Sectoral emissions reduction strategy for Western Australia, p. 15.

Note: Fuel mix refers to the mix of energy inputs used across Western Australia. Electricity can be produced from either fossil fuel or renewable sources. Achieving net zero emissions across the economy requires the electricity sector to decarbonise faster than other sectors while simultaneously meeting a step change in total demand as other sectors electrify.

48. The Commonwealth Government released the *Future Gas Strategy* in May 2024.[8] This strategy document reaffirmed Australia's commitment to supporting net zero emissions by 2050 and identified guiding principles for an orderly transition. The ones relevant to gas pipelines include:

- The availability of affordable gas for Australian users throughout the transition.
- Gas markets adapting to remain fit for purpose during the energy transformation.

49. GGT's customers are large gas users, some of which now fall under the Federal Government's Safeguard Mechanism. The Safeguard Mechanism places obligations on liable parties for increasing emissions reductions on a path to net zero by 2050.

[8] Australian Government, *Future Gas Strategy*, May 2024.

GGT reasons for asset life cap

50. GGT submitted that both the ERA and AER have accepted that there is a likelihood that both the role of gas and its transportation will decline in the future, where the NGR allows for a change in the economic life for a relevant asset.[9]

51. GGT referred to the Western Australian Government's policy commitment to achieving net zero emissions by 2050. In particular, GGT pointed to net zero emissions mining and decarbonisation projects via the adoption of alternative energy sources and energy efficient processes. GGT also conducted a customer survey that indicated that at least 65 per cent of respondents were considering plans to decarbonise, and two customers currently have on-site renewable sources.[10]

52. GGT considered that it is accepted that the future of gas is uncertain, and as a prudent operator it should take steps to mitigate the risk of stranded or under-used assets. GGT concluded that its proposed asset life cap method would avoid situations where new conforming capital expenditure would have a greater asset life than the related pipeline to which it is attached. GGT considered that its proposal would result in more stable prices in the future.

53. GGT conceded that its proposal to cap asset lives will result in capital being returned to investors quicker than retaining the standard lives, but submitted that while its near-term future appears healthy, the medium-to-longer term outlook is uncertain. GGT further submitted that its proposed depreciation method is a precautionary approach to manage the risk of under-use or asset stranding which would have financial consequences for gas pipeline investors.[11]

54. GGT also considered that under rule 89(1)(a) of the NGR, the provision of accelerated depreciation will promote economic growth in the market for reference services as it would allow for gas pipelines to compete with alternative sources of energy.[12]

55. GGT stated that it is prudent to cap asset lives now rather than do nothing as it is a modest change in response to an uncertain future role of gas. Further, GGT submitted that as a prudent operator it should take measures to reduce uncertainty, where its proposal is a "pragmatic and least regrets approach to managing that potential risk."[13]

56. GGT advised that its proposal to cap the asset life at 2065 was influenced by the ERA's final decision for the DBNGP access arrangement, where the ERA capped the life of the pipeline to 2063. GGT considered that while GGP and the DBNGP serve different types of customers, their futures are aligned and share the same fate of uncertainty about their future roles.[14]

9 GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, pp. 102-103.
10 GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, pp. 104-105.
11 GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 105.
12 GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 104.
13 GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 105.
14 GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 104.

Considerations of the ERA

The national gas objective; and revenue and pricing principles

57. The national gas objective requires the consideration of economic efficiency, where the choice of depreciation can promote price signals to guide the efficient use of, and investment in, gas pipelines. The revenue and pricing principles also require the service provider to be given a reasonable opportunity to recover efficient costs.

58. Rule 89 of the NGR details that the depreciation schedule should be designed to allow, as far as reasonably practicable, for adjustments that reflect changes in the expected economic life of a particular asset or group of assets.

Asset life cap

59. For AA5, GGT proposed that the AA4 straight line method be maintained but with a change to the way that asset lives are calculated from 2025 onwards. The proposed method can be summarised as follows: [15]

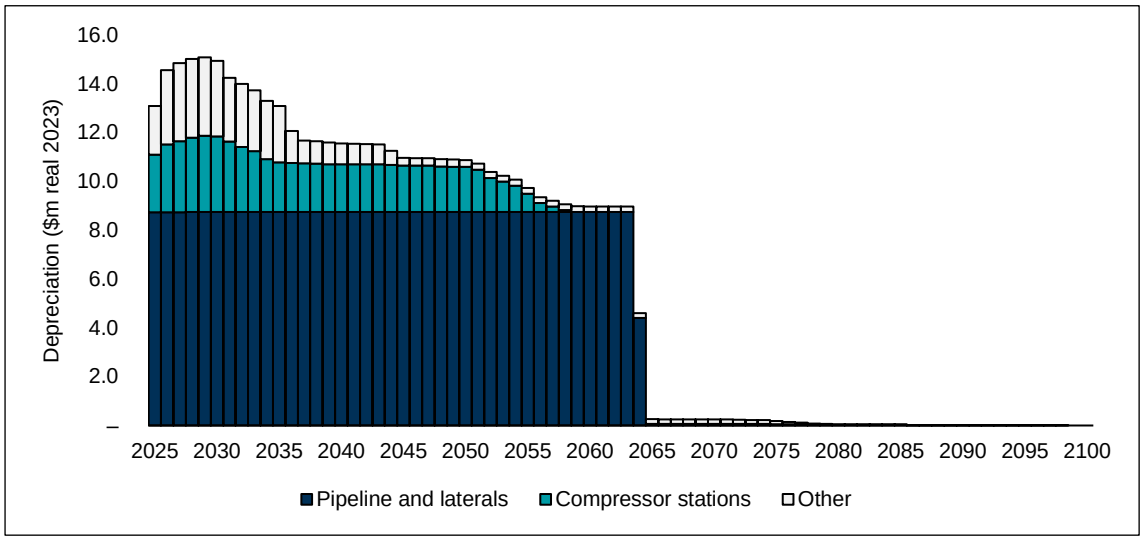
- Calculate the WARL of the pipelines and laterals asset class.
- Cap the lives of all assets prior to AA5 to the WARL.
- Cap the asset lives for new capital expenditure to the WARL.

60. GGT's proposed method is based on ensuring that there are no assets that have an economic life that exceeds that of the main pipeline and laterals asset class. The majority of the GGP's regulatory asset base is comprised of the initial capital base, where approved capital expenditure since 2000 has resulted in a small percentage of the RAB having asset lives that approach the next century. Capping asset lives at the WARL will achieve a re-alignment of costs such that the regulatory asset base will be fully recovered once the pipelines and laterals assets of the initial capital base are fully written down.

61. The full schedule of regulatory depreciation assuming no capping of asset lives is illustrated in Figure 6.3, which indicates that approximately $3 million (real, 2023) of regulatory depreciation lies beyond the 2065 WARL. GGT's proposal to cap asset lives would re-profile the depreciation amounts such that there will be no values beyond 2065. Importantly, GGT's proposal is not to reduce the current WARL of the pipelines and laterals asset class.

[15] GGT, *Goldfields Gas Pipeline AA5 - Proposal Overview*, 1 January 2024, p. 101.

Figure 6.3: Regulatory depreciation scheduled with no asset life capping



Source: GGT, Revised proposal: Tariff Model.

Note: Expenditure limited to proposed AA5 figures and excludes the proposed shared capital expenditure for illustrative purposes.

62. GGT's proposal raised the possibility that the capped asset lives could either apply to new investments (that is, AA5 onwards), or to also include investments made after the initial capital base to AA4. The ERA's draft decision considered that for consistency, any capped asset life approach should apply to both. Allowing for one but not the other would result in some assets with asset lives exceeding that of the main pipeline, which would not be an effective implementation of a capped asset life strategy.

63. The ERA's draft decision also identified changes required for the effective implementation of the capped asset life proposal. GGT's revised proposal has addressed some of these changes.

64. The ERA has identified changes to the financial model in order to implement the capped asset life proposal:

- Equity raising costs to be calculated as per the capital base from regulatory year 2024.
- Equity raising costs have been retrospectively applied since 2000, which needs to be reversed back to their original positions and should only apply prospectively.

65. In summary, the net effect of GGT's revised proposal is to ensure that no asset class will have an asset life greater than the pipeline and laterals asset class WARL, but ones that have a life below the WARL remain unaffected.

66. The impact of asset capping on customers and the gas pipeline is likely to be modest. The corresponding increase in revenue of $0.3 million ($ real, 2023) for the access arrangement period is small. Asset capping will affect around 12 per cent of the revised proposed capital expenditure, where affected capital expenditure amounts to approximately one per cent of the regulatory asset base. Accordingly, this will not have a material impact on consumption or tariffs.

67. The asset life cap approach is consistent with providing a reasonable opportunity to recover efficient capital expenditure and would support efficient investment in the pipeline to maintain a safe and reliable pipeline to service customers over its remaining economic life. As an example, for illustrative proposes:

- The core physical pipeline has a life that runs to 2065.
- A small $2 million pipeline investment is required in 2024 to maintain safety. Pipeline assets currently have an economic life of 70 years.
- The recovery of the new required pipeline investment would only occur by 2094, which occurs well past when the pipeline's life ends in 2065.
- Therefore, the pipeline operator would likely not be able to recover its new investment in the pipeline and would be discouraged from maintaining safety and reliability to the detriment of current and future customers.

68. As required by the NGR economic lives can be re-evaluated and updated from one access arrangement period to the next to reflect the best information available. This provides flexibility overtime.

69. The ERA considers that the capped asset life approach as proposed by GGT is capable of preserving investment incentives, which are in the long-term interests of consumers with respect to quality and safety.

Final decision on capped asset lives

70. The ERA considers that capping asset lives is reasonable and supports efficient outcomes under the NGL and NGR. This provides GGT a reasonable opportunity to recover efficient capital expenditure and this is unlikely to have a material impact on customers during AA5.

Forecast depreciation

71. The ERA accepts GGT's approach to calculate its base level of depreciation, which is consistent with its existing approach. Additionally, the ERA has accepted GGT's proposal to cap asset lives.

72. The ERA's forecast regulatory depreciation allowance is detailed in Table 6.7.

Table 6.7: ERA final decision for AA5 regulatory depreciation ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	Total
Base depreciation	13.0	14.5	14.8	14.9	15.0	72.3
Add: Changes due to capping asset life	0.0	0.0	0.1	0.1	0.1	0.3
Total depreciation	**13.1**	**14.5**	**14.8**	**15.0**	**15.1**	**72.6**

Required Amendment

6.1 GGT must amend the forecast depreciation of the capital base for AA5 to $72.6 million (real as at 31 December 2023). The yearly values for each year of the access arrangement period are as set out in Table 6.7 of this Final Decision Attachment 6.

Appendix 1 List of Tables

Appendix 2 List of Figures