energy market consulting associates

GGT - Goldfields Gas Pipeline (GGP)

REVIEW OF SELECTED ASPECTS OF GGT'S AA5 REVISED PROPOSAL

Public Version

Report prepared for:

ECONOMIC REGULATION AUTHORITY, WA

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Preface

This report has been prepared to assist the Economic Regulation Authority (ERA) with its assessment of Goldfield Gas Transmission's (GGT) Access Arrangement for the Goldfields Gas Pipeline, for the period from 1st January 2025 to 31st December 2029 (AA5), which it is required to conduct in accordance with the National Gas Law (NGL) and the National Gas Rules (NGR) as applied in Western Australia. This report covers a particular and limited scope as defined by the ERA and should not be read as a comprehensive assessment of proposed expenditure that has been conducted making use of all available assessment methods.

This report relies on information provided to EMCa by the ERA and by GGT up until 10 October 2024. EMCa disclaims liability for any errors or omissions, for the validity of information provided to EMCa by other parties, for the use of any information in this report by any party other than the ERA and for the use of this report for any purpose other than the intended purpose.

In particular, this report is not intended to be used to support business cases or business investment decisions nor is this report intended to be read as an interpretation of the application of the NGR or other legal instruments. EMCa's opinions in this report include considerations of materiality to the requirements of the ERA and opinions stated or inferred in this report should be read in relation to this over-arching purpose.

Some numbers in this report may differ from those shown in GGT's Access Arrangement Information (AAI) or other documents due to rounding.

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ABBREVIATIONS

Term	Definition
AA	Access Arrangement
AA4	Access Arrangement for the period 2020-2024
AA5	Access Arrangement for the period 2025-2029
AEMO	Australian Energy Market Operator
APA	APA Group
BST	Base Step Trend
CAM	Capital Allocation Method
Capex	Capital Expenditure
CY	Calendar Year
Draft Decision	AA5 Draft Decision
EMCa	Energy Market Consulting associates
ERA	Economic Regulation Authority
ERP	Enterprise Resource Planning
FD	AA4 Final Decision
FY	Financial Year
GGT	Goldfields Gas Transmission Pty Ltd
GGP	Goldfields Gas Pipeline
IR	Information Request
ITOT	Information Technology / Operating Technology
JV	Joint Venture
MEJ	Major Expenditure Jobs
NGI	Northern Gas Interconnect pipeline
NGL	National Gas Law
NGR (WA)	National Gas Rules (WA)
RAB	Regulated Asset Base
Rules	National Gas Rules
Opex	Operational Expenditure
SaaS	Software as a Service
SIB	Stay In Business
SoCI	Security of Critical Infrastructure
TOTEX	Total Capex and Opex Expenditure

EXECUTIVE SUMMARY

1. In this report, we provide our findings on updated information that GGT has provided in its Revised Proposal for the AA5 Regulatory Period (and which includes proposed AA4 conforming capex for inclusion in its Capital Base). This report follows on from and updates certain matters that we reviewed in our report on GGT's Initial Proposal (our Initial Report), focusing on those matters where GGT did not accept ERA's Draft Decision, or where GGT has provided updated forecasts that exceed those that it previously proposed.

AA5 Opex

GGT's proposed opex is overstated

2. In its Revised Proposal, GGT has proposed an opex allowance of $134.8 million. This compares with its Initial Proposal of $130.80 and ERA's Draft Decision of $110.90.
3. GGT has now derived base opex from GGP's 2023 actual opex. GGT has provided further information on the corporate costs included in this base value, and which are considerably higher than in its Initial Proposal. This is the main factor driving GGT's Revised Proposal for opex higher than ERA's Draft Decision.
4. GGT has rejected ERA's Draft Decision to disallow a step change for its new ERP and to reduce its step change for AA6 Regulatory Proposal preparation costs, and GGT has increased its proposed step change for SOCI. These factors too contribute to GGT's higher Revised Proposal.
5. We consider that:
   - GGT's proposed allowance for Corporate Costs in its adjusted base opex, is considerably overstated. GGT's base allowance includes transformation costs and other corporate costs that were considerably higher in 2023 than in previous years and GGT has not demonstrated that these higher amounts are representative of AA5 requirements.
   - GGT's Pipeline Operations costs in its adjusted base opex (for which we had previously proposed a reduction) are now reasonable and should be accepted.
   - GGT's increased SOCI 'separately forecast' cost is reasonable on the basis that it results from a justified reallocation from capex (with no change in totex).
   - GGT's proposed AA6 Regulatory Costs step change is overstated, and its proposed ERP step change is not required.

SIB Capex

GGT's proposed Stay in Business (SIB) capex amounts for AA4 and AA5 are reasonable

6. GGT has provided information in its Revised Proposal that now leads us to propose accepting its AA4 SIB capex of $40.0 million[1] and its proposed AA5 SIB capex of $43.5 million. In forming this opinion:

[1] GGT's proposal showed an amount of $42.0 million, however in the course of our review, GGT corrected this to $40.0 million.

- For AA4, we reviewed increased costs for the Wiluna pre-NGI project and for GEA upgrades at Yarraloola. In both cases we are satisfied with the explanations that GGT has provided.
- For AA5, GGT proposed an amount that is slightly less than the ERA Draft Decision. We reviewed the basis for specific changes that GGT had made, and we consider that the proposed amount is reasonable.

Shared capex

It is not reasonable for GGT to include an allocation of APA's corporate capex in the GGP Capital Base

7. As we described in our Initial Report, GGT has proposed for the first time including an allocation of APA Group corporate capex as GGP 'conforming capex', both for AA4 and for AA5. Information that GGT provided shows that APA Group is currently undertaking major corporate 'transformation' projects, with capital expenditure that is currently significantly higher than it was in the early years of AA4 and GGT proposes including $26.5 million as conforming capex for AA4 and a further $12.8 million for AA5.

8. We have considered a range of new information that GGT has provided, including more detailed information on the shared capex projects and information on its sharing of corporate costs more generally, including 'management fees'. We have also referred back to the Rules in the NGR(WA) that define 'conforming capex' and the basis for assessing whether it is justified. In summary:

   - While our role is as technical reviewers, our interpretation of the NGR for the purpose of our technical advice does not support inclusion of capex that is not incurred by the regulated entity.
   - Further to this, with GGP comprising only around [redacted] of APA Group (from a revenue perspective) and with APA Group's corporate capital expenditure necessarily targeted at supporting the whole Group, we consider that GGT has not adequately demonstrated that the proposed capex is justified for GGP, in terms of the criteria specified in the Rules.
   - For AA4, two management fees were allowed for in GGP's opex allowance, that GGT now advises were additional to expected costs. With this information, we consider that there is already a degree of duplication in GGP's revenue allowance for this period or would be if a share of APA Group's corporate capex was to be rolled into GGP's Capital Base.
   - We also do not accept GGT's arguments that the proposed amounts have been 'properly allocated' or that this is consistent with ERA determinations. We consider that GGT's proposal is not consistent with GGT's Cost Allocation Methodology that applied for AA4.

9. We therefore consider that it is not reasonable to include a share of APA Group's corporate capex as conforming capex.

1 INTRODUCTION

The ERA has asked us to provide technical advice to assist it with its assessment of GGT's revisions to its Initial Proposal regarding the access arrangement for the Goldfields Gas Pipeline (GGP). The requested technical advice is for specific aspects of the AA4 capex, AA5 capex and AA5 opex that GGT has proposed in its Revised Proposal, as defined in ERA's scope instructions to us, and does not encompass the entirety of GGT's Revised Proposal.

1.1 Purpose of this report

10. The purpose of this report is to provide the Economic Regulation Authority ('ERA') with our assessment of aspects of Goldfields Gas Transmission's ('GGT's') revised proposal for the 2025-29 Access Arrangement period ('AA5') for the Goldfields Gas Pipeline ('GGP'). This is as set out in GGT's 2025-29 Revised Proposal and associated Access Arrangement Information and Supporting documents, submitted to ERA in September 2024. The Revised Proposal responds to the ERA's Draft Decision, dated 25 July 2024 ('Draft Decision').

11. Our assessment builds on the analysis and findings from our assessment of aspects of GGT's Access Arrangement Information for the GGP Initial Proposal, dated 1 January 2024, as set out in our Initial Technical Report.[2] For this assessment, our primary information source has been GGT's Revised Proposal and supporting documentation provided to us by the ERA and subsequently from GGT's responses to Information Requests from ourselves and the ERA.

12. We have assessed those aspects of GGT's Revised Proposal that are directly relevant to the scope of requested work.[3] This does not take into account all factors, or all reasonable methods, for determining capital or operating expenditure allowances in accordance with the National Gas Rules (NGR). We understand that the ERA will establish such allowances for GGT based on assessments undertaken by its own staff.

1.2 Scope of requested work

13. We are required to provide to the ERA an Updated Technical Report which covers whether, and in what manner, new information provided by GGT or third parties in relation to our scope of review, changes conclusions drawn in our Initial Technical Report.

14. Our scope of review:

- Includes assessment of
  - AA4 capex projects/programs for which GGT has provided a revised estimate
  - AA5 capex for which GGT has provided a revised estimate (including new project/programs), and
  - AA5 efficient base year opex and proposed opex step changes (except for proposed Regulatory expenditure).
- Excludes assessment of
  - projects for which GGT has accepted the Draft Decision
  - the overall opex forecast, including trend parameters

[2] GGT – Goldfields Gas Pipeline; Review of Technical Aspects of GGT Access Arrangement 2025-29. EMCa report to ERA (July 2024)

[3] GGP - GGT - AA5 - Letter to EMCa for final updated report - deliverable 3

- the overall capex forecast, including allocations between covered and uncovered pipelines.

15. Because the assessments in the current report are for specific items only, we no longer provide a consolidated opinion on total capex or opex in this report. However, the findings in our Initial Report remain valid except to the extent that the current report provides an update.

1.3 Our review approach

16. We have followed the same approach to reviewing gas businesses' revised proposals as we have undertaken in the past for the ERA, by:

- Reviewing new information and clarifications provided from GGT, and
- Reviewing feedback provided by the Secretariat and by relevant third parties.

17. As requested in the scope of work, our assessment focuses on whether the new information leads us to alter findings and conclusions provided in our Final Technical Report regarding whether the proposed expenditure complies with one or more of the capex or opex justification criteria. In accordance with our scope of work, we have not undertaken a new standalone assessment of GGT's proposed conforming AA4 capex, AA5 capex and AA5 opex forecasts against the NGR (WA).

1.4 Structure of this report

18. In the subsequent three sections, we describe our assessment and conclusions regarding GGT's new information in its Revised Proposal:

- In Section 2, we provide our assessment of the new information provided by GGT on aspects of its proposed opex, including the implications of its updated base year value.
- In Section 3, we provide our assessment of the new information provided by GGT on its proposed Stay in Business (SIB) AA4 and AA5 conforming capex.
- In Section 4, we provide our assessment of the new information provided by GGT on its proposal to treat a share of APA capex as conforming capex, and therefore to include it in the GGP Capital Base.

2 ASSESSMENT OF NEW INFORMATION ON AA5 OPEX

In its Draft Determination, the ERA did not accept GGT's proposed opex forecast. The ERA applied negative adjustments (further to those that GGT had made) to GGT's proposed base opex and disallowed or reduced some proposed step changes.

GGT has accepted some but not all aspects of the ERA's decision and has updated the base year for its AA5 forecast from 2022 to rely on actual opex in 2023.

Information that GGT has provided in its Revised Proposal led us to re-examine its allowance for corporate costs, which we had previously proposed to accept, but which has increased significantly.

On review, we now propose accepting GGT's proposed base year amount for Pipeline Operations, and its separate forecast for SOCI. However, we consider that its proposed base year allowance for corporate costs and its proposed step change amount for AA6 Regulatory Proposal preparation costs is overstated and that its proposed step change for ERP is not required.

2.1 Introduction

19. We have been asked to review and provide advice to the ERA on selected aspects of the opex allowance that GGT has proposed in its Revised Proposal. These are:

- GGT's proposed 'base year opex' allowance. Specific aspects of this include:
  - its update to base this allowance on its 2023 actual opex (whereas its Initial Proposal was based on its 2022 actual opex)
  - the base year adjustments that it has proposed applying to its 2023 opex, and
  - its response to the ERA for instances where it has rejected making adjustments that the ERA had required in its Draft Determination.
- Revised step changes where the ERA has made adjustments and GGT rejected them (proposed new forecasts), namely:
  - AA6 regulatory proposal costs, totalling \$1.59m
  - Enterprise Resource Planning (ERP), totalling \$1.93m.

20. EMCa has not been asked to provide further advice on trend parameters or cost allocations in GGT's Revised Proposal. Consequently, our review does not encompass all aspects of GGT's proposed opex and, for the same reason, any adjustments that we propose relate specifically to the aspects that we have reviewed and cannot necessarily be combined to produce a substitute aggregate opex forecast.

21. We first provide an overview comparison between GGT's Initial Proposal, the ERA's Draft Decision and GGT's Revised Proposal. We then provide subsections where we assess and provide our findings on:

- GGT's base year opex (sections 2.3, 2.4 and 2.5), and
- GGT's proposed separate forecasts (section 2.6) and step changes (section 2.8).

2.2 ERA Draft Decision and GGP's Revised Proposal

22. In its Draft Decision, the ERA approved total opex of $110.90 million of the $130.80 million proposed by GGT in its Initial Proposal, equivalent to a reduction of 15.2%. Of the total reduction of $19.90 million, $18.82 million was attributable to reductions to proposed expenditure for corporate costs and pipeline operations.

23. GGT does not accept the ERA's Draft Decision and in response, proposes $134.8 million which is $4 million higher than GGT's Initial Proposal and $24 million higher than the ERA's Draft decision as shown in the Table 2.1 below.

Table 2.1: Comparison between GGT's Initial Opex proposal, ERA Draft decision and GGT's Revised Proposal

Category - $ million, 2023	GGT's Initial proposal	ERA Draft Decision	GGT's Revised Proposal
Pipeline operation	75.00	67.43	74.30
Major expenditure jobs	2.60	2.51	1.00
Commercial operation	7.50	7.46	6.50
Regulatory costs	4.40	3.36	4.20
Corporate costs	41.40	30.15	48.80
Total	**130.80**	**110.90**	**134.80**

Source: EMCa table derived from ERA Draf Decision, Att. 5 p.15 and GGP's Revised Proposal p.54

2.3 Assessment of proposed allowance for efficient base year opex

2.3.1 Update from 2022 base year to 2023 base year

It is reasonable that GGT has now adopted 2023 as its base year

24. The ERA accepted GGT's proposal to use the 2022 actual as the base year as this was the most recent year of actual expenditure at the time of GGT's initial submission.

25. In its Revised Proposal, GGT proposes to adopt 2023 as the base year because it is now the most recent full year of actual expenditure. After GGT's proposed base year adjustments, its proposed adjusted 2023 base opex is $23.93 million which is $0.4 million higher than the 2022 equivalent that it proposed.

26. We consider that the use of 2023 actual by itself as the new base year is reasonable. Our assessments for the components of 2023 base opex are in the following subsections.

2.3.2 Adjustments to the base year

GGT's adjustments account for the NGI, remove non-recurring items, remove double counting for items that are forecast separately or as step changes, and reduce 2023 corporate costs

27. GGT's unadjusted base year (2023) opex for its Revised Proposal is $32.41 million. Similar to its initial proposal, GGT has proposed adjustments to the base year, as shown in Table 2.2 and which we summarise as follows:

- GGT has removed a total of $2.66 million for non-recurrent costs:
  - demand side management $0.10 million

  - APA operations and commercial management fees $2.56 million
- GGT has removed $1.55 million for SoCI cyber security and has made a separate forecast averaging $1.37 million per year for this
- GGT has removed a total of $3.23 million from the base year for the following costs, however GGT has added amounts for these back as step changes:
  - AA6 regulatory proposal $0.58 million
  - ERP $2.65 million
- Additionally, GGT has removed $1.19 million from corporate costs by using an average for 2022 and 2023 actual opex for Corporate costs (other than corporate transformation), and
- Similar to its initial proposal, GGT has added $0.09 million on its base year to cover additional costs as a result of the forecast increased covered capacity enabled by the NGI.

28. GGT's proposed adjusted 2023 base year is $23.93 million as shown in Table 2.2.

Table 2.2: GGT revised adjusted 2023 base year - $m, real 2023

Base year	Amount
2023 opex base year	32.46
Add increase due to NGI	0.09
2023 base year (incl. NGI)	**32.55**
Using an average of 2022 & 2023 for corporate other than transformation	-1.19
Separately forecast or added to steps	
AA5 costs	-0.58
SoCI cyber	-1.55
ERP	-2.65
Remove 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: EMCa table derived from GGP AA5 Att.5.1 opex model

2.3.3 Comparison with historical opex

29. In our previous assessment of GGT's Initial Proposal, we compared five-year averages of each opex category with what was then the base year (2022) to understand any anomalies in base year opex. Now that GGT uses 2023 as its new base year, we again compare this with average five years (2018 – 2022) as shown in Table 2.3 below.

Table 2.3: GGT five-year average opex compared with 2023 actual unadjusted & adjusted - $m, real 2023

Category	Average 2018-2022	2023 actual unadjusted	*Variance*	GGT adjusted 2023	*Variance*
Pipeline operation	15.63	17.04	*1.40*	14.52	*-1.11*
Major expenditure jobs (MEJs)	0.21	0.20	*-0.01*	0.20	*-0.01*
Commercial operation	0.84	0.66	*-0.18*	0.60	*-0.24*
Regulatory costs	0.55	1.10	*0.55*	0.52	*-0.03*
Corporate costs	5.80	13.47	*7.67*	8.08	*2.28*
TOTAL	**23.03**	**32.46**	***9.43***	**23.93**	***0.90***

Source: EMCa table derived from GGP AA5 Att. 5.1 Opex model and GGT initial response to EMCa22-25

30. We consider that the opex categories of MEJs, commercial operation and the base year allowance for regulatory costs are reasonable, when we compare the proposed amounts with those that the ERA allowed in its Draft Decision. Specifically, we note that:

- For MEJs, GGT originally proposed $0.50 million. The ERA allowed $0.19 million of this. With 2023 reported expenditure now $0.20 million, and in line with historical averages, GGT's Revised Proposal is reasonable.
- For Commercial operation, the ERA allowed GGT's previous base year amount of $0.79 million. At $0.60 million in 2023, GGT's Revised Proposal is now less than the ERA previously allowed.
- For Regulatory costs included in the base year (i.e. not considering step changes), the ERA allowed the $0.55 million that GGT had proposed. At $0.52 million in 2023, GGT's Revised Proposal is now less than the ERA previously allowed.

31. In sections 2.4 and 2.5 we consider GGT's Revised Proposal for the other two base opex line items, being:

- Pipeline Operation, and
- Corporate costs.

2.4 Base year – Pipeline Operation

ERA made a negative adjustment of $1.4 million, based on lack of justification for the increased costs in the 2022 base year

32. In its Initial Proposal, GGT proposed base opex of $14.43 million for pipeline operation which consists of two subcategories:

- APA operations $14.09 million,[4] and
- GGT operations $0.34 million.[5]

33. In its Draft decision, the ERA adopted our advice to deduct $1.4 million of field service operations (part of APA operations costs). This represented 50% of the increase in costs that we observed between GGT's 2022 actual expenditure and its five-year average. We made this recommendation on the basis that, while some of the explanatory factors that GGT provided could reasonably be considered as ongoing, other factors appeared to have resulted from over-representation of certain events that had occurred or issues that had become apparent in that year.

[4] ERA Draft Decision, page 7 (Note this differs slightly from the amount shown in Table 2.4 below, due to updated inflation indices.

[5] ERA Draft Decision, page 8. Note that this amount is after GGT adjusted to remove APA Operations and Commercial Management fees.

We consider that the 2023 actual opex is now justified as a reasonable base amount for APA operations

34. As we show in Table 2.4, GGP's 2023 cost for operation (field services) is $0.2 million less than in 2022 and similar to a three-year average. With 2023 actual costs now available, it is clearer that ongoing expenditure of around [redacted] for operation (field services) can more reasonably be considered the 'new normal'. Combining consideration of the updated expenditure with the explanations that GGT previously provided for expenditure increasing relative to levels pre-2021, we consider that the APA Operations expenditure allowance in its Revised Proposal is reasonable.

Table 2.4: APA operations opex - $m, real 2023

Category	2019	2020	2021	2022	2023
Administration (Business Services)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Engineering (Engineering & Projects)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Operations (Field Services)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total APA Operation	**11.53**	**10.80**	**13.71**	**14.06**	**14.13**

Source: EMCa table derived from GGP AA5 Att. 5.1 Opex model. Data in this table excludes a 'payroll adjustment' that GGT similarly excluded from its proposed 2022 base.

We also consider that the Revised Proposal amount for GGT operations is reasonable

35. As it did in its Initial Proposal, GGT has removed APA Operations and Commercial Management fees from its base opex for the GGT Operating costs component of Pipeline Operating costs. In 2023 these totalled $2.56 million, and removing these leaves $0.35 million in the base opex value for this component. This is essentially the same as in its Initial Proposal, which ERA accepted.

GGT's proposed base year allowance Pipeline Operating expenditure is reasonable

36. After adjustments to remove APA Operations and Commercial Management fees, as GGT has proposed, we consider that GGT has adequately justified using its 2023 actual cost for Pipeline Operations in its base year allowance, and that no further adjustment is warranted.

2.5 Base year - Corporate opex

2.5.1 ERA Draft Decision and GGT's Revised Proposal

GGT initially proposed its 2022 actual corporate cost for its base opex, and which was significantly greater than in previous years. The ERA disallowed this and substituted a lower amount.

37. For its Initial Proposal GGT based its allowance for corporate costs on its 2022 actual costs which it reported as $7.9 million. This was significantly higher than its 2021 corporate costs of $4.9 million, with the latter figure being more representative of average corporate costs incurred over the previous four years 2017 to 2021 (when expressed in real terms).[6]

38. GGT deducted SOCI expenditure of $0.8 million from the base amount, but proposed SOCI-based step change amounts across AA5.

39. The ERA determined that GGT had not demonstrated sufficient justification for the cost increase between 2021 and 2022. The ERA disallowed GGT's proposed corporate cost

6 Refer to Table 6.5 in EMCa Initial Technical Report

allowance and adopted a substitute amount of $5.3 million, which was based on the average value from 2018 to 2021 (but excluding SOCI expenditure).[7]

GGT has now proposed a revised amount based on its 2023 actual corporate opex. However, this is considerably greater than in 2022 and higher than ERA's Draft Decision

40. As is shown in Table 2.5, GGT's proposed corporate cost base (which it derives as an allocated share of APA Group corporate costs) is significantly higher still in 2023, at $13.5 million.

Table 2.5: Summary of APA Corporate opex and GGP covered allocation - $m, real 2023

Description	2020	2021	2022	2023
Transformation projects	[redacted]	[redacted]	[redacted]	[redacted]
Corporate - other	[redacted]	[redacted]	[redacted]	[redacted]
Total corporate APA	[redacted]	[redacted]	[redacted]	[redacted]
GGP covered allocator	[redacted]	[redacted]	[redacted]	[redacted]
GGP covered allocation	**4.79**	**4.93**	**7.89**	**13.47**

Source: GGT response to EMCa52

41. GGT does not accept the ERA's substitute corporate base opex amount. For its Revised Proposal, GGT has proposed a base value derived from a combination of 2022 and 2023 actual opex, as shown in Table 2.6. Specifically, GGT has:

- Used the average of 2022 and 2023 values for 'Corporate – other', and
- Used the 2023 actual for what it has termed 'Corporate – transformation' opex and has deducted ERP and cyber opex for that year but has proposed a 'separate forecast' for SOCI and a step change for ERP.

42. From this, GGT has derived a base corporate opex value of $8.1 million,[8] being $2.8 million higher than the $5.3 million that the ERA allowed in its Draft Decision.

7 ERA Draft Determination, page 9

8 GGT Revised Proposal, page 57

Table 2.6: Derivation of GGT proposed base year corporate opex ($ million, $2023)

	2022 Actual	2023 Actual	*GGT Adjustments*	GGT proposed base amount
Corporate - Other	5.02	7.39		
Average (2022 and 2023):				6.21
Corporate - Transformation		6.08		
less ERP			*-2.65*	
less cyber / SOCI			*-1.55*	
Subtotal (transformation, after adjustments)			*-4.20*	1.88
Total actual opex		**13.47**		
Proposed base opex				**8.08**

Source: EMCa, derived from information in GGP AA5 Attachment 5.1 – Opex model - revised

2.5.2 Drivers for assessment of new information

GGT has advised that the premise on which we had previously proposed accepting the GGP corporate opex base value, was incorrect. We have therefore reassessed GGT's proposed corporate opex base (which is also now higher)

43. In our Initial Report, we proposed accepting the GGP corporate opex base amount of $7.15 million (in $2023 real terms, after removing SOCI), on the basis that GGT had explained that its removal of $2.4 million of management fees from its base opex was because APA Group was now providing these services. Given our understanding that what GGT described as 'corporate costs' are an allocation of APA Group costs, we assumed that the cost for the services now provided by APA would therefore be inherent in the 'corporate costs' allowance. Noting that the 2022 increase in corporate costs of $2.2 million was similar to the management fees that GGT had removed, we considered that GGT's proposed corporate cost base was therefore justified.[9]

44. In its Revised Proposal, GGT has stated that our understanding was incorrect and that the management fees previously charged by the JV were not based on costs. This information eliminates the justification that we had adopted for allowing the 2022 increase in corporate costs.

GGT's Revised Proposal for corporate opex is considerably higher than ERA's Draft Decision and triggered a need for more information to facilitate our review

45. The further significant increase in GGT's 2023 opex further reinforces the need for review of the corporate opex now proposed. Noting that the proposed base year value of $8.1 million excludes ERP of $2.7 million, on a comparative basis (i.e. after deducting SOCI only) GGT's Revised Proposal is for a base value of $10.8 million, compared with the ERA's Draft Decision of $5.3 million. In broad terms (ignoring the second-order effect of trend factors), this results in a proposed forecast that is $27.5 million higher than the ERA's Draft Decision.[10]

46. Given its magnitude, we sought further information from GGT to enable an assessment of the factors that have driven corporate opex up to such an extent, and of the reasonableness assuming that expenditure at this level will persist through AA5.

9 EMCa Initial Technical Report, pages 60 and 61

10 ($10.8m - $5.3m) x 5 years = $27.5m

2.5.3 Assessment of new information on corporate transformation opex

GGT's 2023 'corporate transformation' opex results from a share of a [redacted] APA Group expenditure, which is more than double the previous year and 17 times more than in 2021

47. In its Revised Proposal, GGT refers to transformation programs which it states account for $6.1 million of the $13.5 million 2023 corporate opex.[11] GGT provided information on the component projects in this program in 2023 in its opex model, showing that the $6.1 million referred to was an allocation to the GGP of a [redacted] APA Group program expenditure in that year.

48. The magnitude of this program was not previously evident and, in any case, was minimal before 2022. We therefore sought information on the expenditure on this program starting from 2020, and which we reproduce in Table 2.7. As can be seen, this is an APA Group program of work that has grown from just under [redacted] in 2020 to [redacted] in 2023.

Table 2.7: APA Corporate Transformation projects and allocation to covered GGP - $m, real 2023

Transformation projects	2020		2021		2022		2023	
	APA	*GGP*	APA	*GGP*	APA	*GGP*	APA	*GGP*
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL	[redacted]	***0.11***	[redacted]	***0.31***	[redacted]	***2.87***	[redacted]	***6.08***

Source: GGT response to EMCa52. The four rows italicised above comprise items that GGT removed in determining its adjusted base opex, as noted below.

49. We summarise the GGP share of costs in Table 2.8. While ERP and cyber security projects together comprise the main portion of this expenditure, the information shows significant and increasing expenditure on 'other' transformation projects, which contribute $1.9 million to GGT's corporate base opex in 2023, almost all of which is additional relative to 2020 and 2021. GGT has then extrapolated this 2023 'transformation-other' peak to 2024 and, by retaining it in its base year, assumes that this expenditure will continue at this level for each year in AA5.[12]

[11] GGT Revised Proposal, page 59

[12] The model that GGT provides in response to IR EMCa52 confirms this assumption, which is shown in row 26 in sheet C|Shared Total

Table 2.8: Summary of GGP share of corporate transformation opex

Transformation projects by major category	CY20	CY21	CY22	CY23
SoCI	[redacted]	[redacted]	[redacted]	[redacted]
ERP	[redacted]	[redacted]	[redacted]	[redacted]
Transformation - other	[redacted]	[redacted]	[redacted]	[redacted]
Total	**0.11**	**0.31**	**2.87**	**6.08**

Source: EMCa, from information in GGT response to IR EMCa52 (sheet 3.2.2 Transf by year)

50. GGT has removed 2023 SOCI and ERP costs from its base opex, however these are replaced in its forecast by addition of a 'separate forecast' (SOCI) and a step change (ERP), both of which are similar on average to the removed base amounts. We assess these specific forecasts in section 2.6.

It is not reasonable to retain the 2023 peak share of transformation expenditure of $1.9 million, in base opex

51. GGT provides no evidence that would justify the need to maintain its share of APA Group 'transformation - other' expenditure at this peak level throughout AA5. We also consider it implausible that a transformation program would involve expenditure at the high and, it seems, unprecedented level that GGT indicates for 2023, over a period of seven years. Moreover, GGT has not sought to define the benefits that GGP customers will receive from the transformation program other than in the most general terms such as that:

> *'…delivery of business transformation…maintains and protects APA's operations',*
>
> *'GGP customers will benefit from the key technology transformation programs which are modernising and upgrading important systems.'*[13]

52. We considered the possibility that the high level of expenditure in 2023 may have resulted from a recategorization of some components of corporate IT expenditure; however, we consider this a highly unlikely explanation, noting that:

- APA did recategorise such expenditure starting from 2021, and included this expenditure (described as 'Group executive Transformation and Technology) as a line item in its table, but does not refer to any further recategorization,[14] and
- APA 'other' corporate opex for IT/OT/cyber was also higher in 2023 than 2022 (by over [redacted]),[15] suggesting that it is implausible that the increase of [redacted] in corporate transformation opex in 2023[16] (and which is largely IT/OT/cyber related) resulted from any further recategorisation of corporate expenditure in that year.

A reasonable substitute forecast for 'transformation – other' is $0.3 million per year, implying a negative adjustment of $1.6 million to corporate base opex

53. We consider that a reasonable substitute forecast for an ongoing level of transformation expenditure, absent adequate justification from GGT, would consider 2023 expenditure to represent a peak level and to allow for an ongoing level of expenditure based on the prior three years. This would provide for ongoing APA Group transformation opex of $5.2 million per year, with GGT's share of this being $0.3 million per year. This is $1.6 million less than the amount that GGT has proposed.

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13 GGT Revised Proposal page 39.

14 GGT references this in a note on sheet 3.2.2 Transf. by year in its response to IR EMCa52

15 GGT response to IR EMCa52, sheet 3.1.1 Breakdown, row 20

16 Table 3.5, total row, APA column for 2022 and 2023

2.5.4 Assessment of new information on 'corporate – other' opex

GGT's 2023 corporate-other opex is $2.4 million higher than 2022. GGT has averaged its 2022 and 2023 corporate-other opex, resulting in a proposed negative adjustment of $1.2 million

54. GGT's response to IR EMCa52 provided us with a year-by-year breakdown of what GGT designated as 'corporate-other' expenditure, which is the second of the two components that comprise corporate opex that has been allocated to regulated entities (the other being 'corporate – transformation' as described in section 2.5.3.). The information now provided lists this expenditure at the APA Group level, and as allocated to GGT.

55. As is shown in Table 2.9, this shows APA Group expenditure increasing from amounts of around [redacted] per year from 2020 to 2022, to [redacted] in 2023. The main contributor to this increase appears to be IT/OT/cyber opex being [redacted] higher in 2023 than in 2022, but with the SaaS component of these costs (which is removed to capex) being [redacted] less in 2023 than in 2022.

Table 2.9: APA Corporate (others) and allocation to covered GGP - $m, real 2023

Corporate - other	2020		2021		2022		2023	
	APA	GGP	APA	GGP	APA	GGP	APA	GGP
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Subtotal	[redacted]	*5.66*	[redacted]	*6.20*	[redacted]	*8.60*	[redacted]	*8.66*
[redacted]								
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Corporate - other	[redacted]	*4.67*	[redacted]	*4.62*	[redacted]	*5.02*	[redacted]	*7.39*

Source: EMCa, from information provided in GGT response to IR EMCa52, sheet 3.1.1 Breakdown

56. In its Revised Proposal, GGT has recognised that its 2023 corporate-other opex is above trend. GGT provides its reasoning as follows:

'…GGT has …reviewed the 'other' corporate costs to understand if 2023 figures are reflective of the AA5 period. GGT has adjusted these costs to be an average of both 2022 and 2023 to smooth out any jumps in expenditure in 2023.

57. GGT also explains that:

2020 and 2021 were excluded from this average as they were impacted by COVID-19 which disrupted normal operations.

58. As we show in Table 2.6, the average of 2022 and 2023 'corporate-other' is $6.21 million, and GGT has therefore reduced the 2023 actual opex by $1.2 million to account for this in its adjusted base. Nevertheless, this results in a base opex value that is $1.2 million more than in 2022.[17]

We accept GGT's logic of the need to take an averaging approach rather than using 2023 actual opex as the base, but not GGT's proposition to exclude 2020 and 2021 actual costs from this average

59. While noting GGT's acknowledgment that its 2023 actual 'corporate-other' opex is not representative of its ongoing requirements, and the consequent need for an 'averaging' approach, we do not accept GGT's argument for not including 2020 and 2021 corporate-other opex on the basis that it was impacted by COVID-19.

60. Referring to Table 2.9, we observe that APA Group 'corporate-other' opex was relatively stable across the whole period from 2020 to 2022 and that the only reason for GGT's slightly higher amount in 2022 than in the two previous years was a higher allocation of APA Group costs. Across the four years for which AA4 actual APA costs are available, it is therefore only 2023 that is anomalously high.

We propose an adjustment that is based on averaging all actual AA4 APA Group expenditure, and applying the 2023 GGP allocation percentage to this average

61. Given the stability of APA Group 'corporate-other' opex from 2020 to 2022, we consider that averaging over the four years 2020 to 2023 provides a reasonable and stable base from which to forecast AA5 requirements. This approach takes some account of the increase in costs in 2023 but, as with GGT's proposal, removes the full effect of the jump in expenditure in that year.

62. Rather than averaging GGT's share of the expenditure, the information now provided allows us to separately consider the stability of the APA Group expenditure and the increasing allocation to GGP. As a substitute forecast, we have therefore:

- Averaged APA 'corporate-other' opex (in real terms) over the four years, and
- Applied the 2023 GGP allocation share ([redacted] to that average.

63. Relative to GGP's 2023 actual expenditure, this therefore requires a negative adjustment of $1.7 million, which is a $0.5 million greater adjustment than GGT has proposed.

64. Our calculation of this proposed substitute base year adjustment is shown in Table 2.10.

[17] $6.21m - $5.02m

Table 2.10: EMCa proposed substitute adjustment for 'corporate-other' in the base year.

Corporate-other opex	GGP allocation	APA: Average 4 years	2023 actual	Adjustment
APA Average (2020 to 2023)		[redacted]		
GGP covered allocation	[redacted]	5.67	7.39	-1.72

Source: EMCa calculations, with data derived from GGT response to IR EMCa52

2.5.5 Aggregate base year adjustments for corporate opex

65. In Table 2.11 we summarise the proposed and substitute adjustments for corporate opex in the adjusted opex base.

Table 2.11: Corporate opex: Proposed base amounts and adjustments

Corporate opex components	2023 actual	*GGT proposed adjustment*	GGT proposal	EMCa substitute proposal	*EMCa substitute adjustment*	*Implied additional EMCa adjustment*
Corporate Transformation:						
SOCI + ERP	4.20	*-4.20*	-	-	*-4.20*	-
Transformation - Other	1.88	-	1.88	0.31	*-1.57*	*-1.57*
Subtotal: Corporate Transformation	**6.08**	***-4.20***	**1.88**	**0.31**	***-5.77***	***-1.57***
Corporate Other	**7.39**	***-1.19***	**6.21**	**5.67**	***-1.72***	***-0.54***
TOTAL Corporate	**13.47**	***-5.38***	**8.08**	**5.98**	***-7.49***	***-2.10***

Source: EMCa, with data drawn from GGT attachment 5.1 (Opex model) and GGT response to IR EMCa 52

2.6 Aggregate impact of adjustments to base year

66. Taking account of the corporate base year adjustment that we propose in section 2.5, in Table 2.12 we present the aggregate impact of adjustments to base opex.

67. In the course of our review, we identified that GGT had also made a modelling error, in referencing a cell from a table that was incorrectly summed.[18] We have included this correction in this summary table.

[18] In Attachment 5.1 (opex model), sheet 'base year", GGT referenced actual opex to a nominal value for APA Operations in sheet '1.1 Detailed opex (conf)' for which the sum in 2023 did not include one line item (payroll adjustment), in contrast with the corresponding 'real terms' table in this same sheet (and also nominal sums in previous years).

Table 2.12: Summary adjusted EMCa base year - $m, real 2023

Base year	Amount
2023 opex base year (GGT uncorrected)	**32.46**
less correction of GGT model incorrect cell reference	*-0.05*
Add increase due to NGI	*0.09*
2023 base year (incl. NGI)	**32.50**
Using an average of 2022 & 2023 for corporate other than transformation	-1.19
Separately forecast or added to steps	
AA5 costs	-0.58
SoCI cyber	-1.55
ERP	-2.65
Remove non-recurring costs	
Demand side management	-0.10
APA Operations Management Fee	-1.18
APA Commercial Management Fee	-1.38
Less EMCa adjustment	
Corporate costs	-2.10
Adjusted 2023 Base year (EMCa)	**21.77**

Source: EMCa table, derived from information in GGT attachment 5.1 (Opex model) in conjunction with information in GGT response to IR EMCa52

2.7 Separate forecasts

2.7.1 SoCI

68. In its Draft Decision, the ERA accepted the total $3.7 million that GGT proposed in its Initial proposal. This comprised approximately half of GGT's totex forecast for SOCI of $7.5 million with the balance (in this case $3.8 million) proposed as a component of 'shared capex'.

69. In its Revised Proposal, GGT has made some adjustment to the ratio of forecast capex and opex for SoCI. The total capex and opex (totex) forecast remains the same ($7.5 million) as GGT originally proposed. However, APA's experience is that a much greater proportion of this expenditure is opex, and it has modified its forecast to reflect the ratios that are now becoming known. The original and revised amounts are shown in Table 2.13

70. This is consistent with our observations for a range of other energy utilities for which we have reviewed similar expenditure. Noting that, as part of APA corporate opex, this expenditure flows through to the GGT allocation of such opex, we remain of the view that it is reasonable to allow this step change and we consider that the increase is reasonable, noting that it results from revealed accounting treatment of the overall expenditure.

Table 2.13: GGT SoCI cyber adjustment of capex and opex- $m, rea 2023

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

Source: GGP Revised proposal, Table 5-16, p.66

2.8 Opex step changes

2.8.1 Safeguard mechanism initiatives

71. The ERA accepted in full GGT's Initial proposed expenditure ($3.5 million) and GGT does not propose a different amount in its Revised Proposal. We have therefore not further reviewed this step change.

2.8.2 AA6 regulatory proposal

ERA did not allow the amount that GGT initially proposed. However, in its Revised Proposal GGT has re-proposed the same amount

72. In its Draft Decision, the ERA approved $0.59 million of $1.59 million step change proposed by GGT in its Initial Proposal. GGT has rejected ERA's Draft Decision and has reproposed the same $1.59 million step change, as shown in the Table 2.14.

Table 2.14: GGT AA6 regulatory proposal step change - $m, real 2023

Step change	2025	2026	2027	2028	2029	AA5 Total
AA6 regulatory proposal	0.00	0.18	0.28	0.85	0.28	**1.59**

Source: GGT AA5 Att. 5.1 Opex model

Whereas GGT reports having spent $579,000 on its AA5 Regulatory Proposal, it estimates that its AA6 Regulatory Proposal costs will be $850,000

73. In its Revised Proposal, GGT states that

> *'The AA5 preparation costs were $579,000 in 2023, which is the fourth year of the AA4 period. The equivalent year for preparing the AA6 proposal would be 2028, where GGT has proposed expenditure of $850,000. This means that GGT is asking for an additional $271,000 for AA6 in this equivalent year'*[19]

74. In its Attachment 5.1 AA5 opex model, GGT provides expenditure for Regulatory costs which consists of three sub-categories as shown in Table 2.15.

[19] GGT Revised Proposal, page 64

Table 2.15: GGT actual/estimates regulatory costs - $m, real 2023

	2018	2019	2020	2021	2022	2023	2024
ERA Standing Charges	0.39	0.57	0.51	0.35	0.36	0.39	
GGT Regulatory Costs	0.14	0.01	0.05	0.16	0.19	0.13	
Costs relating to AA5 proposal	0.00	0.00	0.00	0.00	0.00	0.58	
Total	**0.53**	**0.57**	**0.56**	**0.51**	**0.55**	**1.10**	**0.52**

Source: GGP AA5 Att. 5.1 opex model

75. From Table 2.15 above, the cost of preparing the AA5 Regulatory Proposal is $0.58 million in 2023 and GGT shows no other expenditure in other years. This appears to be consistent with the amount that GGT refers to in the quoted text above. GGT also only forecasted an amount of $0.52 million for 2024, which appears to be only for ERA charges and GGT Regulatory costs referred to in the first two lines of the table, which further supports the figure of $0.58 million for AA5 Regulatory Proposal preparation costs.

The step changes that GGT has proposed are inconsistent with its explanation and are more than double the amount that it has based its justification on

76. GGT has retained amounts totalling $0.52 million in its base opex, therefore this accounts in its forecast for the first two line items (in Table 2.15). GGT has removed only the Regulatory Proposal cost of $0.58 million from base opex. However, the step change of $1.59 million that GGT has proposed does not tally with the $850,000 estimate that it refers to in the quotation above. In its Revised Proposal, GGT does propose this amount in 2028, however it also proposes amounts in other years which sum to a further $744,000.[20]

An allowance of $0.85 million is reasonable. This is $0.74 million less than GGT has proposed but $0.27m more than GGT reports for the current period

77. In its Revised Proposal, GGT claims that there are some costs incurred in preparing a Regulatory Proposal that are not present in the single $0.58 million cost shown for 2023. This includes legal compliance fees that, in this instance, were incurred in January 2024 and some increase that it expects to be required in preparing for AA6 for stakeholder engagement and internal labour for technical support. On balance, and taking account of GGT's explanations, we consider that its proposed increased allowance of $0.85 million for AA6 is reasonable and should (as GGT has proposed) be allowed as a 'step change' in 2028. We consider that the amounts that GGT has proposed for the other years should be disallowed.

2.8.3 ERP

In its Draft Decision the ERA rejected GGT's proposed ERP step change

78. The ERA's Draft Decision was to reject GGT's proposed ERP step change in full, noting our findings in our Initial Report that:

- The preliminary draft business case was incomplete and could not be relied upon in presenting a reasonable estimate of costs and benefits for the purposes of a regulatory determination, and
- Most of the opex for APA's preferred Option 4 was also present in the 'business as usual' base case, and therefore any net additional opex incurred by APA would be considerably less than GGT had proposed. In other words, the concern was that GGT was potentially double counting expenditure by retaining its 2023 ERP opex in its base year and including a step change.

20 GGT Revised Proposal page 64 (table 5-15). Information is augmented by data in GGT attachment 5.1 – Opex model, sheet '6 Step changes'

79. GGT's Revised Proposal reinstates the proposed ERP step change (of $1.93 million), as shown in Table 2.16. However, GGT has now deducted ERP opex of $2.65 million in the base year (see Table 2.11 in conjunction with Table 2.8).

Table 2.16: GGT proposed step change for ERP - $m real 2023

Step change	2025	2026	2027	2028	2029	AA5 Total
ERP	0.47	0.43	0.38	0.33	0.32	**1.93**

Source: GGT Attachment 5.1 (opex model), sheet '6.Step changes'

GGT has now addressed our double-counting concern

80. GGT's removal of ERP opex from its base year removes the double count represented by previously retaining 'ERP transformation' opex in the base year while also proposing a step change for the ongoing opex. This now allows consideration of the proposed step change itself, which we cover in the next subsection.

An ERP-driven step change is not justified because the net incremental cost is minimal, after accounting for benefits realisation

81. In response to our information request, GGT provided the final version of its ERP business case.[21] This is likely to present a more robust basis for assessment of costs and benefits of GGT's preferred Option 4 against the counterfactual (Option 1 'do nothing'), noting that the costs and benefits have been updated from the preliminary draft provided for our Initial Review.

82. The updated APA business case includes estimated costs and financial benefits for Options 1 and 4. In Table 2.17 we show estimates for GGP's share of ongoing costs and non-technology financial benefits for the option that APA is implementing (i.e. option 4) and for the counterfactual (option 1), which we have derived from the business case information.

Table 2.17: GGT's estimated ongoing costs and benefits ($m, nominal)

ERP	FY25	FY26	FY27	FY28	FY29
GGP: Option 4 (ongoing costs)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
GGP: Option 1 (ongoing costs)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net ongoing cost of Option 4	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Add back share of Option 4 non-technology benefits realisation	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net cost of option 4 (after benefits realisation)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net total cost of Option 4 within AA5			[redacted]		
Net average annual cost to GGP within AA5	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: EMCa, from response to IR EMCa53: APA ERP Final Business Case (confidential). Ongoing costs are from the financial summary tables in section 3.1 (option 1) and 3.4 (option 4) of the business case. Benefits are from the financial summary table in 3.4, with reference also to the benefits summary in section 2.2 of the business case. A GGP allocation has been derived from these tables using an allocation factor of [redacted] consistent with GGT's proposal for AA5 corporate opex.

83. We observe firstly that our calculation of Option 4 ongoing costs is similar to the step change amounts that GGT has proposed, if shifted by one year. At a superficial level, this is likely explainable by the business case showing costs and benefits in financial years, whereas the opex step changes are necessarily in calendar years. A further factor is that

21 EMCa53 – ERP Program – Final Business Case - Confidential

GGT's proposed step changes are in $2023 real terms, whereas indications in the APA business case are that the financial costs and benefits are shown there in nominal terms.[22]

84. Secondly, however, we observe that there is relatively little difference in the ongoing costs of the new ERP relative to existing ERP-related ongoing costs, which is as we would expect.[23] The average annual cost difference is $160,000.

85. Thirdly, we observe that the APA business case quantifies financial benefits that it expects to realise from option 4.[24] These are quantified only to 2027, and it is unclear why they would not be expected to continue. Nevertheless, when we apportion APA's estimate of realisable financial benefits up to 2027, the net average annual additional cost of the new ERP is only $90,000 per year.

86. On this basis, GGT's proposed ERP-related step change of $1.93 million is not justified and we propose no step change allowance for GGP from the introduction of its preferred ERP solution, and which replaces legacy IT solutions.

22 Page 39 of the business case refers to 'indexation' and provides indexation rates for each year of the financial forecasts.

23 The project-based 'transformation costs' for Option 4 are significant, however GGT information shows that these will be essentially complete by the commencement of AA5. (see for example GGT response to EMCa52, sheet '*C|Shared Total*')

24 In order not to double count, we have ignored technology cost savings, on the assumption that these are inherent in the comparison of ongoing costs. The financial benefits that we have included align with those shown as procurement savings from improved governance (in the table on page 18 of the business case).

3 ASSESSMENT OF NEW INFORMATION ON SIB CAPEX

GGT revised GGP's SIB AA4 capex to $42.0 million by accepting some of the ERA's Draft Decisions, incorporating actual expenditure from the beginning of 2023 to June 2024, updating its forecast expenditure for the balance of CY24, and reinstating its method of capex allocation, including in relation to the Northern Gas Interconnector (NGI). GGT subsequently updated its revised SIB capex to $40.0 million after correcting for an error.

We have considered the technical changes to the AA4 SIB capex forecast and find that they were driven by either sound asset management and operational principles or correction of errors that GGT has identified. We consider that the proposed $40 million updated and revised SIB AA4 capex is reasonable on technical grounds; however, we were not asked to review GGT's capex allocation to the covered pipeline and therefore our finding is qualified by the need to also consider this factor.

GGT revised its SIB AA5 capex to $43.5 million by accepting the ERA's Draft Decisions, removing a project that was incorrectly assigned to the covered network, and revising its capex allocation factor. We consider the technical changes to be prudent and propose no further adjustments on technical grounds.

3.1 Introduction

87. In sections 3.2 and 3.3we review new information that GGT has provided on its proposed conforming AA4 and AA5 SIB capex, respectively, including in response to the ERA's Draft Decision. We have taken account of GGT's responses to our requests for additional information.

3.2 ERA Draft Decision and GGP's revised AA4 SIB proposal

3.2.1 Overview of AA4 capex

GGT has made several changes in deriving its Revised SIB capex

88. Table 3.1 compares GGT's Initial and Revised Proposal with the ERA's Draft Decision. GGT advised that in deriving its AA4 revised capex it:[25]

- Replaced CY23 placeholders/estimates with actuals
- Updated CY24 forecast to include January to June actuals
- Aligned AA4 actuals with the updated RIN (submitted in May 2024), and
- Made modelling changes to apply AA4 allocators to AA4 costs.[26]

25 GGT Revised Plan, page 32 and response to Information request EMCa53 (question 1)

26 As noted in footnote 7 of its Revised Proposal, GGT's Initial Proposal Forecast Capex Coverage Allocation Model applied AA5 allocators 'to keep the model simple'. It updated this model in its Revised Proposal

ERA rejected GGT's proposed new cost allocation factors

89. In its Draft Decision, the ERA considered and rejected GGT's proposed changes to cost allocation factors due to the incorporation of NGI capacity, instead retaining the pre-NGI cost allocators. This had the effect of excluding $1.77 million from SIB AA4 capex.

Revised AA4 SIB capex is 30% higher than the ERA's Draft Decision

90. As shown in Table 3.1, the revised and updated[27] AA4 SIB capex is $7.7 million (24%) higher than the ERA's Draft Decision and $0.3 million higher than GGT's Initial Proposal due primarily to increases in the following three categories:

- Rotating maintenance
- Reliability, and
- Other.

91. We discuss the material AA4 SIB capex variances in section 3.2.2.

Table 3.1: AA4 SIB capex comparison ($m 2023)

Category	Initial Proposal	ERA Draft Decision[28]	Revised Proposal	Variance (RP vs DD)
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 AA4 SIB capex	**39.7**	**32.3**	**40.0**	**7.7**

Sources: Based on GGT Revised Proposal Table 4-3 with modification to the Revised Rotating maintenance capex due to updates in GGT's response to IR EMC53; sums may differ due to rounding errors

** In the Draft Decision, Attachment 4 Table 4.5, End of equipment life is adjusted from $7.53m to $6.16m; Hazardous area/compliance was not adjusted and is shown as $1.14m, Reliability was adjusted from $19.94m to $15.89m, Other was adjusted from $4.66m to $4.30m; Buried pipework was not adjusted by the ERA. There is an adjustment of -$1.77 million for Cost allocation changes in the Draft Decision which may account for these differences*

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

Issues inherent in Table 3.1

92. Table 3.1 is based directly on GGT's Table 4-3, Revised Proposal. The total of $32.3 million for ERA adjusted SIB AA4 capex shown in Table 3.1 matches the $32.25 million shown in the Draft Decision document itself. We note however that the ERA's Draft Decision AA4 SIB allowances at the category level shown in Table 3.1 do not all match the Draft Decision itself (ERA's Attachment 4, Table 4.5). For example:

- The ERA has aggregated the adjustment for Cost allocation changes as a single line item totalling $1.77 million

27 As discussed in section 4.2.2, GGT updated its revised SIB capex from $42.0 million to $40.0 million in a response to an information request.

28 This is as reported in GGT's Revised Proposal, Table 4-3 with the exception of Rotating maintenance and the total revised SIB capex

- The five category costs designated in Table 3.1 with asterisks differ from the ERA's Draft Decision. We assume that GGT has applied the ERA's cost allocation adjustments to the five line items (i.e. rather than including a Cost allocation line). However, the discrepancy is not explained in the Revised Proposal.

GGT's annual proposed AA4 expenditure

93. Table 3.2 shows GGT's proposed annual revised and updated expenditure for the AA4 period.

Table 3.2: GGT Updated Revised Proposal - AA4 SIB capex – EMCa adjustment ($m 2023)

Category	CY20	CY21	CY22	CY23	CY24	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**
Other	1.0	1.2	1.2	0.9	0.3	**4.6**
Total GGT updated revised	**7.4**	**10.2**	**5.7**	**6.4**	**10.4**	**40.0**

Source: EMCa53 – GGP AA5 Capex coverage allocation model – revised – Confidential – 20241010; sums may differ due to rounding errors

** This is shown in Table 3.1 as $21.4 million (from the Revised Proposal document) but is $21.5 million in the spreadsheet referenced as the source for this Table 3.2*

3.2.2 Our assessment of revised SIB AA4 capex

Overview of new information provided

94. There was limited new information in GGT's Revised Proposal to support the increases in the three categories denoted above.[29] We therefore asked GGT for further information,[30] which we assess for the three categories with significant increases in the sections below.

95. In the response to our information request, GGT included an updated version of Table 4.3 from its Revised Plan,[31] which:

- Corrects an error associated with the Rotating maintenance category, which we discuss in a sub-section below.
- Includes a minor adjustment to its proposed Reliability capex from $21.4 million to $21.5 million- we discuss in the Reliability capex sub-section below, and
- Introduces an error by swapping the ERA Draft Decision capex for the Buried Pipework ($1.8 million) and Other ($3.5 million) categories. We discuss Other capex in a sub-section below.

Rotating maintenance

96. GGT advised that in reviewing our information request, it identified an error in its forecast in which it over-estimated the costs of its Yarraloola GEA upgrade project. It realised this when it updated its forecast to reflect the actual spend of $3.2 million in the first six months of

[29] Rotating maintenance, Reliability, and Other

[30] GGT response to information request IR53

[31] GGT response to information request EMCa53, Table 1

2024, but did not revise the forecast for the balance of 2024 from $3.6 million down to $0.7 million).[32]

97. This resulted in an updated revised conforming capex proposal for Rotating maintenance of $2.8 million instead of $4.8 million as shown in its Revised Proposal (Table 4-3). The variance to the draft decision is therefore only +$0.3 million higher than the Draft Decision (i.e. rather than $2.3 million higher as shown in the Revised Proposal).

98. The ERA's Draft Decision accepted $2.5 million proposed by GGT in its Initial Proposal. Given the updated total of $2.8 million includes actual capex up to June 2024, we consider the increased amount of $2.8 is reasonable.

Reliability

99. Comparing GGT's AA4 revised reliability capex projects with the ERA's Draft Decision, the cost of two projects increased significantly from the Draft Decision:

- Wiluna Pre-NGI (also referred to as the Wiluna Compressor Station Upgrade) and
- GEA Upgrades – Yarraloola (Units 1 &2).

100. The variations required justification beyond the explanations given in the Revised Proposal, so we requested further information from GGT.[33]

Wiluna pre-NGI project

101. The major change to GGT's proposed AA4 reliability capex in the ERA's Draft Decision was to the allocation of the Wiluna pre-NGI project:

> *GGT argues that it is reasonable to assign 100 per cent of the cost of the project to the covered pipeline. However, EMCa considers that the Wiluna pre-NGI project will provide benefit to both the covered and uncovered sections of the pipeline and hence the costs should be allocated accordingly. This results in a reduction of $4.3 million with the resulting reliability expenditure being $15.6 million.*[34]

102. In its Revised Proposal, GGT has reinstated the 100% allocation, stating that '*The ERA's CAM for AA4 is clear that compressor unit capex is allocated to the covered pipeline if it is a covered compressor unit*.[35]

~~103.~~ The Wiluna compressor station is a covered compressor unit. The reinstatement of the $8.55 million would appear to be reasonable, given (i) the prudency of the solution was not queried by us (or the ERA) in our Initial Report, and (ii) the quantum is essentially unchanged (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% to the covered pipeline.

GEA Upgrades – Yarraloola (Units 1 &2)

104. The cost of the Yarraloola GEA project has increased $1.7 million from the approved $8.7 million in the Draft Decision to $10.4 million in the Revised Proposal. GGT advises that the increased capex was due to:

- Additional cost to complete the original scope of work, and
- Additional design engineering works and procurement, which we infer to drive the majority of the cost increase:
  - replace a malfunctioning Pressure Control Valve with a Safety Shutdown Valve

32 GGT response to information request EMCa53; the resultant $2.8 million forecast for the AA4 period is post-allocation of costs to the covered assets

33 GGT response to information request EMCa53

34 ERA Draft Decision, Attachment 4, paragraph 66

35 GGT Revised Proposal, page 51

– reduce the arc flash rating from category 3 to category 1 in the battery room to simplify operations and maintenance.

105. The additional scope appears to be reasonably incurred.

Other

106. In its Revised Proposal GGT identifies $4.6 million Other capex, a reduction of $0.1 million from its Initial Proposal, but $1.1 million higher than the Draft Decision. The Draft Decision identifies an adjustment of -$0.36 million by substituting a 0% allocation to the covered assets for the cost of constructing the NGI connection assets. The ERA based its finding that the cost should be borne by the NGI instead of the GGP on its interpretation of the connection and new facility agreement between GGP and the NGI.[36]

107. GGT accepted the ERA's Draft Decision and removed the NGI connection costs in its Revised Proposal. GGT provide an updated breakdown of its AA4 Other capex from which it is apparent that the NGI cost removal was largely offset by increased actual miscellaneous capital and National Asset Engineering data costs.[37] We consider the revised amount to be reasonable.

3.2.3 Findings and impact on proposed conforming SIB AA4 capex

108. The ERA's Draft Decision reduced GGT's initially proposed SIB capex from $39.7 million to $32.3 million. GGT's Revised Proposal increased the SIB AA4 capex to $42.0 million, which it subsequently updated to $40.0 million per advice in its response to EMCa53.

109. We have reviewed the technical aspects of GGT's changes (i.e. not the changes to allocators) and find that:

- GGT's approach to incorporating the latest actual expenditure is reasonable
- We tested the validity of technical changes through a multi-part information request and consider that:
  - The technical revisions to the Rotating maintenance and Reliability categories are reasonably incurred
  - There are no technical changes to the Other category, which we previously found to be reasonable
  - The revisions to all other capex categories are minor and we consider them to be reasonable.

110. On this basis we propose no changes to the revised and updated SIB AA4 capex of $40.0 million shown in Table 3.2.

3.3 Assessment of revised AA5 SIB capex

3.3.1 Overview

GGT has reduced its SIB AA5 capex forecast

111. As shown in Table 3.3, GGT has proposed $43.5 million capex over the AA5 period in its Revised Proposal, which is $0.5 million lower than the ERA's Draft Decision of $44.0 million and $3.5 million less than its Initial Proposal.

[36] ERA Draft Decision, Attachment 4, page 16

[37] GGT response to information request EMCa53, Table 4

Table 3.3: AA4 SIB capex comparison ($m 2023)

Category	Initial Proposal	ERA Draft Decision	Revised Proposal	*Variance (Revised vs Draft Decision)*
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*
Buried pipework	2.1	2.1	2.1	*0.0*
Other	1.2	1.1	1.1	*0.0*
Total	**47.0**	**44.0**	**43.5**	***-0.5***

Source: Based on GGT Revised Proposal Figure 4-4

112. Table 3.4 shows the annual revised SIB capex forecast for the AA5 period.

Table 3.4: GGT's revised SIB AA5 annual capex forecast ($m 2023)

Category	2025	2026	2027	2028	2029	Total
Integrity	9.69	3.05	0.00	0.00	0.00	**12.74**
Rotating maintenance	0.45	0.17	1.69	0.43	0.33	**3.08**
End of equipment life	3.19	2.00	1.15	1.06	0.36	**7.77**
Net zero	0.00	0.00	0.00	0.00	0.00	**0.00**
Physical security	3.73	2.66	0.80	0.35	0.00	**7.53**
Hazardous area / compliance	0.67	0.15	0.00	0.00	0.00	**0.82**
Reliability	4.31	0.03	2.00	1.98	0.00	**8.31**
Buried pipework	1.03	0.83	0.28	0.00	0.00	**2.14**
Other	0.27	0.28	0.14	0.14	0.28	**1.12**
Total	**23.35**	**9.17**	**6.06**	**3.95**	**0.97**	**43.50**

Source: GGP AA5 Attachment 4.1 – Capex CAM – revised - Confidential

3.3.2 Our assessment

GGT accepted the ERA's Draft Decision and made further reductions

113. In its Revised Proposal, GGT has accepted all of the ERA's Draft Decisions pertaining to SIB AA5 capex with the exception of two matters:[38]

- It removed an incorrectly assigned project from the End of Equipment Life category,[39] reducing the forecast conforming capex by $0.12 million, and
- It reduced the contracted capacity allocator from 61% to 58%.

[38] GGT response to Information Request EMCa53

[39] Re-Life Program Leinster MS EI&C

No adjustment is required on technical grounds

114. We see no issues with GGT's technical changes to its Initial Proposal and therefore propose no adjustments, noting that further consideration of cost allocation factors is not within our scope for this updated review.

4 ASSESSMENT OF NEW INFORMATION ON SHARED CAPEX

In its Initial Proposal, GGT proposed including a share of APA Group's corporate capex for AA4 and AA5 by deeming it to be 'conforming capex', for inclusion in the GGP Capital Base. In successive regulatory determinations over the past 20 years, GGT had not previously proposed inclusion of parent group capex and did not do so for AA4.

In its Draft Decision, ERA did not allow GGT's proposal and expressed the view that recovery of parent group corporate capital infrastructure-related costs should be accounted for as part of GGT's operating expenditure. In its Revised Proposal GGT again proposes that an allocation of its parent group's capex should be included in GGPs Capital Base, with the proposed amounts being $26.5 million for AA4 and $12.8 million for AA5.

While GGT has now provided some useful additional information on APA's corporate capital program, we consider that inclusion of part of APA Group's capex in GGP's Capital Base is not consistent with the WA Rules and that, in any case, GGT has not adequately demonstrated that the proposed capex could be considered to meet the justification criteria in the Rules by reference to GGP as the regulated entity.

4.1 Introduction

115. In this section, we review new information that GGT has provided on its proposal to include a share of APA Group Corporate capex in the GGP Capital Base. This is a significant item for AA4 that GGT did not allow for at the time it originally provided its submission for this period, but which it has claimed should now be allowed as conforming capex, along with a forecast for a share of APA Group capex to be included in rolling forward the Capital Base through AA5.

116. In its Draft Decision, ERA did not allow the proposed shared capex and expressed the view that this should have been accounted for as part of GGP's AA4 operating costs.[40]

4.2 ERA Draft Decision and GGP's Revised Proposal

4.2.1 ERA Draft Decision

ERA disallowed GGT's proposal to introduce an allowance for 'shared capex' in AA4 and AA5

117. In its initial Regulatory Proposal, GGT proposed that $30.4 million of shared capex be considered as conforming capex for AA4. GGT had derived this amount as a share of APA Group corporate capex for this period, comprising actual expenditure for 2020 to 2022 and estimates for 2023 and 2024. GGT allocated this to GGP using the same (revenue-based) allocation percentages as it had used for allocating APA Group corporate opex.[41]

[40] ERA Draft Decision, page 18

[41] In 2022 this was [redacted]

118. For AA5, GGT proposed $15.9 million of shared capex, based on a forecast of APA Group capex, allocated to GGP again using the same allocation factor as for corporate opex..

119. In its Draft Decision, the ERA disallowed these amounts in their entirety, noting EMCa's advice that allowing for inclusion of this capex in GGP's Capital Base was inconsistent with APA also maintaining a corporate service charge to GGP. ERA also noted that over this same period APA's corporate service charge to GGP had increased from an annual average of $5.9 million (2020 to 2022) to $13.5 million in 2023.[42]

4.2.2 GGT's revised proposal

GGT does not accept the basis for ERA's decision

120. GGT does not accept this aspect of ERA's Draft Decision, claiming that the relevant expenditure has been properly allocated (in accordance with its CAM). GGT also states that *'….there has not been, and is no, asset utilisation charges (or similar) which recovers shared capital costs through an opex charge or fee'* and therefore that *'….there has been no double dipping of costs across capex and opex.'*[43]

GGT's amended proposal for shared capex

121. In its Revised Proposal, GGT has amended the shared amounts that it proposes. This includes minor changes to historical actual expenditure, replacement of the 2023 estimate with actual expenditure for this year and revised forecasts for 2024 (completing AA4) and for each year in AA5. Its proposed expenditure allowances are s shown in Table 4.1.

Table 4.1: GGT proposed shared capex – comparison of initial and revised proposals

Shared Capex - $m, real 2023	AA4	AA5
GGT Initial proposal	30.41	15.93
GGT Revised Proposal	26.50	12.84

Source: GGP Revised Proposal Overview Table 4-1 and GGT response to EMCa52

122. We sought further information on the nature of the proposed shared capex. In its response, GGT provided a categorised listing of projects, which we summarise in Table 4.2 (AA4) and Table 4.3 (AA5). The amounts shown are GGT's share of APA capex. While the data provided is hard-coded and (except for the years 2020 to 2023) does not reveal total APA capex for these projects, GGT has explained that it has applied the same 'sharing' factors to capex as it does for corporate opex. This would suggest that the amounts shown in the tables represent around [redacted] of APA's expenditure for these projects.[44]

123. As the tables show, the main category of capex in AA4 is IT/OT. For AA4, significant projects under 'Other Shared' are for premises and leased assets and include a non-specific allowance of $1.33 million in 2024.

42 ERA Draft Decision (25 July 2024), Attachment 4: Regulatory Asset Base, (page 18). Both figures are in $2023.

43 GGT Revised Proposal – Overview. (page 30)

44 The opex sharing percentages for each year are shown in row 67 of sheet 3.1.1 in GGT's response to IR EMCa52 and range from [redacted]

Table 4.2: GGT AA4 Shared capex – $m, real 2023

Shared Capex	2020	2021	2022	2023	2024	Total
IT/OT	2.29	1.88	2.48	4.32	3.71	**14.69**
IT/OT - ERP	0.00	0.08	1.56	-0.36	1.14	**2.43**
Cyber security	0.03	0.35	0.53	0.34	0.28	**1.53**
Other shared	0.92	1.34	3.26	0.99	1.33	**7.85**
Total shared capex	**3.24**	**3.66**	**7.84**	**5.29**	**6.47**	**26.50**

Source: EMCa table derived from GGT response to EMCa52

124. The proposed level of shared capex is considerably lower in AA5 than for AA4. The main category is 'Other Shared', which is represented by a single non-specific line item of $1.33 million per year.

Table 4.3: GGT AA5 Shared capex – $m, real 2023

Shared Capex	2025	2026	2027	2028	2029	Total
IT/OT	2.69	1.25	0.47	0.41	0.24	**5.05**
IT/OT - ERP	0.12	0.00	0.00	0.00	0.00	**0.12**
Cyber security	0.24	0.22	0.19	0.18	0.18	**1.01**
Other shared	1.33	1.33	1.33	1.33	1.33	**6.67**
Total shared capex	**4.38**	**2.80**	**2.00**	**1.92**	**1.75**	**12.84**

Source: EMCa table derived from GGT response to EMCa52

4.3 Assessment

4.3.1 The role of corporate functions in the provision of covered services

It is necessary for GGP to be supported by corporate functions and of benefit to GGP to have access to APA Group expertise

125. Much of GGT's response on shared capex is concerned with explaining the role of corporate functions in the provision of the covered services. This includes describing the need for corporate IT, a corporate approach to cyber security, and the need for corporate premises.

126. GGT provides information that describes the commercial and operating agreements under which the JV between APA and Alinta provided services to GGT (up until 1 November 2023), describes the benefits that GGT receives from APA's expertise and corporate support, and claims that sharing the provision of corporate services is more efficient than having a stand-alone corporate function solely within GGT.

127. We acknowledge the role of corporate services in the management of any business. We can also readily accept that there are benefits to GGT in being able to draw on the wider expertise of its much larger parent company and that, in all likelihood, the sharing of corporate resources is more efficient than retaining a stand-alone function. ERA has accepted the inclusion of corporate opex and management fees in its previous determinations on the basis that these are for the provision of such services. The concern of our technical assessment of GGT's proposal is in considering the extent to which it is reasonable to now incorporate the proposed capital expenditure into the GGP Capital Base, retrospectively in the case of AA4.

4.3.2 General assessment of GGT statements

GGT's proposal to include a share of APA Group's capex differs from regulatory precedent that has been in place for the past 20 years and the amount is significant

128. GGT refers to the commercial services and operating services agreements that it has had in place since 2003, and states that neither of these agreements recovers '*…shared capital costs that APA incurs in providing services on GGT's behalf.*'[45] GGT refers to having made a '*historical error*' in *'not allocating shared APA costs to the GGP'.*[46] To the extent that GGT considers this to have been an error, it has nevertheless apparently persisted since 2003.

129. We find it surprising that for 20 years APA Group failed to recognise that it was not recovering what we expect to have been significant capital expenditure on establishing and maintaining its corporate infrastructure. For AA4, for example, GGT has proposed adding $26.5 million of corporate 'shared capex' to the $40.0 million of 'SIB' capex that it incurred.[47] Several factors have led us to focus attention on this aspect of GGT's proposal, including the magnitude of this proposed addition, APA's apparent lack of recognition of such expenditure for regulatory purposes over 20 years, precedent it sets for future regulatory determinations and the multi-period impact of adding such expenditure to the Capital Base.

130. GGT states that the 'issue' was first notified to ERA on 29 August 2022, when GGT stated that *'(f)or financial accounting purposes, corporate asset expenditures are recorded at the APA Group corporate level and are not allocated amongst its assets'*.[48] While GGT presents this as notifying ERA of an issue, we consider that this could equally be viewed simply as a factual statement of its financial accounting practices.

131. GGT also states that the corporate asset expenditures have not been allocated to GGT '*for regulatory purposes' – until the current access arrangement period (2020 to 2024)*.'[49] We consider this to be somewhat misleading as GGT did not propose a share of corporate capital expenditures to ERA for its AA4 regulatory determination and has only now done so retrospectively as part of its proposal for conforming capex for the period.

132. GGT claims that the shared capex in its proposal has been '*properly allocated*' to GGP and, while not directly referencing its CAM, claims that the basis '*is consistent with the revenue and pricing principles determined or approved by the ERA.*'[50] It is not clear what principles GGT is referring to here. GGT has added a chapter to describe its proposed method for allocating APA Group corporate capex to GGT only for the first time in the CAM that it presented to ERA concurrent with presenting its Initial Proposal, in January 2024. To our knowledge this cannot be considered to have been 'determined or approved by the ERA' at this stage.

4.3.3 Consideration of inclusion of shared capex recovery in corporate opex charges to GGT

GGT has informed that it is not recovering a share of APA's corporate capital-related costs through its corporate services opex allowance

133. In considering GGT's proposal to allow for a share of APA's corporate capex in its Draft Decision, the ERA made reference to APA's '*corporate charge to GGT for the corporate and management services that it provides….*'.[51] In noting the significant increases in this charge, the ERA noted GGT's explanation of the nature of the corporate services provided and the

45 GGT Revised Proposal, page 37

46 GGT Revised proposal, page 29

47 GGT Revised Proposal, page 32 (table 4-3) proposes $42.0 million. However as we describe in section 4.2, GGT subsequently amended this to $40.0 million.

48 GGT 'Basis of Preparation' document, as quoted in GGT Revised Proposal, page 34

49 GGT Revised Proposal, page 34

50 GGT Revised Proposal, page 43 (table 4-6)

51 ERA Draft Decision, page 18

nature of the corporate capex that GGT proposed to be shared. The ERA also expressed the view that *'…the [corporate capex] expenditure should have been accounted for as part of AA4 operating costs.'*

134. In our Initial Technical report, we observed that inclusion of the proposed shared capex *'…would appear to represent 'double-dipping' to the extent that these costs have previously been included in APA's Corporate opex fee…'.*[52]

135. For our review of GGT's Initial Proposal, GGT provided only limited information on the composition of the APA Corporate charges to GGT, and the services being provided. Moreover, GGT's explanation that the significant increases that it was proposing were in large part due to extensive corporate IT investment suggested that this corporate investment was being recovered through this charge.[53]

136. In section 2, we consider GGT's revised proposal for corporate costs in considering GGT's revised opex proposal. As part of that assessment, we sought information on the composition of GGT's corporate costs and we specifically asked GGT to provide information that would show (for AA4 and AA5) its corporate shared totex, capex and opex. This has now allowed us to confirm that:

- The shared corporate 'totex' is comprised of shared capex and shared opex
- The shared corporate opex constitutes the corporate opex charge that GGP has recorded historically, and which remains in its base opex for AA5 , and
- The shared corporate capex constitutes the newly-proposed shared capex.

137. This provides reasonable verification of the statement that GGT makes in its Revised Proposal, that '…*there is no overlap between shared opex and capex allocated to the GGT and accordingly no 'double dipping of costs*.'[54].

4.3.4 Consideration of claim not to have recovered an allowance for corporate capex

The APA JV Management fees that were allowed for in GGT's AA4 revenue determination 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

138. In its Initial Proposal, GGT adjusted its base year opex by removing $2.4 million of expenditure for its Operations Management and Commercial management fees.' GGT stated that it had removed these following APA's acquisition of the Alinta JV that had previously charged these fees, with APA Group becoming the sole owner and operator of the pipeline.

139. Our understanding of GGT's explanations was that the management services previously provided under the JV would now be provided directly by APA and the cost for the provision of these services would therefore be covered by the 'corporate costs' allowance, which is a share of APA group corporate costs.[55] On this assumption, we proposed that ERA accept the increase in corporate costs that GGT had proposed, and which was of this same order.

140. In its Revised Proposal, GGT states that this understanding was incorrect and provides explanations that include the following statements:

> *'…these management fees were a charge on top of costs.'*[56]

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52 EMCa Initial Technical report, page xii

53 GGT states this in its Initial Proposal, page 76, and this is repeated in several other places. We summarised the reasons that GGT provided for the increasing corporate costs in paragraph 369 of our Initial Report

54 GGT Revised Proposal, page 37

55 EMCa Initial Technical report, pages 60 and 61

56 GGT Revised proposal, page 36

'This approach is consistent with the majority of suppliers who provide asset management services in competitive markets and earn margins in excess of the directly incurred expenses……'.[57]

'Paying these fees enabled the GGT to access APA's unparalleled scale and expertise.[58]

141. In section 2, we consider the implications of GGT's explanations above for the corporate cost component in its proposed base year opex. For the present purposes in assessing GGT's proposed allowance for shared capex, we observe that it was not our understanding that these were fees for 'shared capex' though we appreciate GGT's confirmation of this. However, given GGT's statement that these fees were not to cover 'costs' it is difficult to construe them as anything other than a 'margin' or 'on-cost'. Moreover, these fees were allowed for in ERA's AA4 (and prior) decisions, therefore GGT's revenue allowance for AA4 included these amounts, which are now explained as being '*on top of the costs incurred'*.[59]

142. As fees for services (which GGT describes in its Revised Proposal), the two Management Fees could be considered to double-count costs that were already allocated to GGT from APA or to be inclusive of the costs of the capital infrastructure by which APA (and its JV partner) provided these services. The former interpretation would suggest a double count of corporate opex, while the latter interpretation would suggest a double count if a share of AA4 corporate capex was to now be included in the GGP Capital Base.

143. Given this information, we consider that it is open to the ERA to consider that the basis on which GGT submitted its proposal for AA4 is the basis on which the ERA should determine conforming expenditure for this period. Specifically, this would be that:

- An allowance for shared capex to be included in conforming capex should not be introduced retrospectively, and that
- In describing the fees as being 'on top of costs' GGT is effectively depicting them as on-costs or margins, which could be reasonably considered to be for recovery of APA Group's indirect costs or overheads which includes the corporate capital investments that supported its ability to provide those services.

144. In other words, we consider that the inclusion of the two Management Fees in the AA4 regulatory determination contributes to a finding that it is not now reasonable to capitalise a share of corporate capex for that period.

4.3.5 Consideration of inclusion of related party capital expenditure in GGP's regulatory capital base

The NGR defines conforming capex, including expenditure justifications and rules for the allocation of such expenditure

145. Under the NGR, only 'conforming capital expenditure' may be added to the regulated entity's capital base. Relevant rules defining 'conforming capital expenditure' are shown in Figure 4.1 and our interpretation of these Rules is relevant to our assessments.

57 GGT Revised proposal, page 34

58 As above

59 As above

Figure 4.1: Extracts from NGR relevant to determining conforming capex

Rule 79: New capital expenditure criteria, subrule (1)

(1). Conforming capital expenditure is capital expenditure that conforms with the following criteria:

- a) *the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services in a manner consistent with the achievement of the national gas objective; and*
- b) *the capital expenditure must be justifiable on a ground stated in subrule (2); and*
- c) *the capital expenditure must be for expenditure that is properly allocated in accordance with the requirements of subrule (6).*

Rule 79, part of subrule (2) (Capital expenditure justification)

(2) Capital expenditure is justifiable if:

- a) *the overall economic value of the expenditure is positive, subject to subrule (3); 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*

Rule 79, subrule 6 (Conforming capital expenditure allocation)

6) Conforming capital expenditure that is included in an access arrangement revision proposal must be for expenditure that is allocated between:

- a) *reference services;*
- b) *other services provided by means of the covered pipeline; and*
- c) *other services provided by means of uncovered parts (if any) of the pipeline, in accordance with rule 93.*

Rule 93: Allocation of total revenue and costs, subrule (2)

(2) Costs are to be allocated between reference and other services as follows:

- a) *costs directly attributable to reference services are to be allocated to those services; and*
- b) *costs directly attributable to pipeline services that are not reference services are to be allocated to those services; and*
- c) *other costs are to be allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the [ERA].*

Source: NGR (WA) v12 (1 February 2024)

We consider that reference to conforming capital expenditure in the Rules is to capital expenditure incurred by the regulated entity and does not allow for the possibility of including capital expenditure allocated from another entity

146. For the purposes of our technical review, our interpretation of the Rules is that references in the Rules to 'capital expenditure' are to expenditure incurred by the regulated entity that the Rules apply to.[60] This is a regulatory legal matter, and we have not investigated whether alternative interpretations have been tested or determined. However, at least in the context of the NGR(WA) we are not aware of an instance, prior to the current GGT proposition, to include an allowance for 'shared capex' from another entity (including a parent entity) in a regulated entity's capital base.

147. GGT asserts that the proposed 'shared capex' is '*properly allocated…consistent with the revenue and pricing principles, determined or approved by the ERA*'.[61] Referring to the NGR, we observe that the 'allocations' referred to in rule 79(6) are for allocations of the regulated entity's costs ***between*** the services referred to in that clause. Specifically, the rule is describing allocations between reference services and between services provided by the covered and uncovered pipelines. This clause is not describing allocations of capital expenditure ***to*** the regulated entity, from another entity (whether or not that is a 'parent' entity.) We consider this a further indication that the NGR's definition of conforming capex is assumed to consider and qualify only the capex incurred by the regulated entity.

148. We also looked for but did not find evidence that the allocation of capex to GGT from another entity is consistent with principles determined or approved by the ERA. GGT has not provided evidence to support this statement, and we are not aware of instances that are relevant to GGT's proposition.

149. We have noted that GGT included a new section (section 8) describing its proposal to allocate shared capex in the updated Cost Allocation Methodology (CAM) that it proposed to the ERA in January 2024, coincident with submitting its Initial Proposal. However, our understanding is that this could not yet be described as having been '*…determined or approved by ERA…*' as GGT claims.

It is not feasible in reviewing proposed expenditure allowances for an entity that comprises around [redacted] of APA Group on a revenue basis, to undertake a review of overall APA Group capex to a level that would satisfy the NGR

150. The shared capex information that GGT has provided lists and categorises what GGT considers to be the APA shared corporate 'projects' together with the capex amounts allocated to GGP. As shown in Table 4.2, GGT proposes $26.5 million for AA4 as its allocation of APA's corporate capex. This represents only around a [redacted] share of APA Group's corporate capex for the period, with APA Group's total corporate capex being of the order of [redacted] for the period.[62]

151. We consider that it is not feasible on the basis of the information that GGT provides on its parent entity, to form a view on the prudency and efficiency of the entire APA Group's significant corporate capital expenditure program to a level that satisfies the requirements of the NGR. Given the relatively small size of GGT relative to APA Group, we would expect APA's corporate capital investment program to be driven by overall APA Group corporate considerations and it would not be feasible to review such a capital program without a thorough understanding and investigation of APA Group's corporate capital infrastructure and expenditure. This would include reviewing APA Group's overall property portfolio, its IT systems, their current state, asset management strategies, future state drivers and investment strategies all of which is well beyond the scope of a technical review of GGT. In

60 We observe that the NGR employs similar wording in referring to operational expenditure, for which GGT has long recorded 'corporate costs' as a component of opex. While GGT has shown that this is calculated as an allocation of a subset of APA Group's direct corporate expenditure, we tend to view it as an annual charge to GGP for the provision of corporate services. We discuss our assessment of this item in section 3.

61 GGT Revised Proposal, page 43

62 GGT Revised Submission provides total APA Group shared capex for the four years to 2023 (Attachment 4.1, sheet I|AA4 Actuals), but provides only the GGP share of shared capex from 2024 to 2029 (Attachment 4.1, sheet C|Shared Forecast)

effect, this would require review of the [redacted] of APA Group's corporate capital infrastructure and capital expenditure that exists to serve needs other than GGP, in order to form an opinion at this level before consideration could then be given to the relative interests of and benefits to customers of GGP.

GGT has not demonstrated that the shared capex that it proposes is prudent and efficient for GGP

152. In its Revised Proposal, GGT claims that the proposed shared capex '*is prudent expenditure as it is required to provide pipeline services and is incurred by all other pipelines operating in Australia.*' GGT also claims that *'(p)rocuring these functions through engaging APA and only incurring a small fraction of the overall cost of these processes and systems enables these services to be obtained at the lowest sustainable cost.'* [63]

153. Our interpretation of the relevant clause of the NGR is that the prudency and efficiency justifications referred to in rule 79(1)(a) refer to prudency and efficiency from the perspective of the specific regulated entity.

154. Notwithstanding the APA Group business cases that GGT has provided, GGT has provided no quantified information that would adequately demonstrate that the proposed APA Group corporate capex is prudently required or efficiently procured such that it will meet the conforming capex justification requirements of the NGR, for the customers of GGP. While we can accept as a general principle that it is likely to be less costly for a small entity to share corporate services with a larger parent entity, we do not consider that general principles such as this are sufficient to justify the proposed addition of around $40 million to GGP's capital base.[64]

155. As GGT mentions in its Revised Proposal, the majority of suppliers of management services charge margins in excess of their costs.[65] To the extent that, by charging only directly incurred opex, APA Group considers that it is failing to recover the costs of its corporate capital infrastructure, then we consider that it would have been open to GGT to propose this. Regulators are used to the need to assess the reasonableness of such margins, and this would have been consistent with the view that the ERA expressed in its Draft Decision that '*…this expenditure should have been accounted for as part of the AA4 operating costs.*'[66]

4.3.6 Observations on proposed amounts

156. While we consider that it is not valid to include GGT's proposed 'shared capex' in GGP's Capital Base, we offer the following non-definitive observations on the expenditure information that GGT has provided.

The relevance of some projects to GGP is unclear

157. APA Group AA4 actual corporate expenditure for the four years to 2023 (totalling [redacted] is dominated by significant IT investments for which expenditure peaked at [redacted] (in 2022) and [redacted] (in 2023).[67]

- The main AA4 project, with expenditure of [redacted], is the 'Grid' project (including Grid enhancement)
- [redacted] in AA4 was for the ERP project, with a further [redacted] for Maximo
- A project labelled 'Operational Efficiencies' incurred [redacted] in AA4

63 GGT Revised proposal, page 43 (table 4-6)

64 From GGP's AA5 Tariff Model, we observe that this would represent an addition of around 9% to GGP's Capital Base (as at 2024). Significantly, the additional capex would add $25 million through depreciation charges to GGP's Total Building Block Revenue requirement for AA5. (Information from sheet 'Assets')

65 GGT Revised Proposal, page 34

66 ERA Draft Decision, page 18

67 Expenditure information is from GGT Revised proposal attachment 4.1, sheet I|AA4 Actuals

- ***Observations:***
  - While we understand the general relevance of the 'Grid' project, the specific benefits to GGP and the prudency of the 'share' of expenditure on this project relative to its benefit to GGP, is unclear
  - There would be a case that the 'operational efficiencies' investment should be self-funding in that the savings would offset the investment cost
  - While we have now been provided an update for APA Group's business case for its ERP project, this does not provide sufficient quantified information on the business case from a GGP perspective, to satisfy a review in accordance with NGR requirements.

Significant items for AA4 under 'Other Shared' appear to be 'one-offs' and it would be reasonable to exclude these in producing an extrapolation-based forecast

158. Of [redacted] incurred for 'Other Shared' capex, significant amounts appear to be non-recurring. For example:

- [redacted] was incurred for Brisbane Premises in 2022, but expenditure for the other three years totalled only another [redacted]
- [redacted] was incurred for Perth premises in 2021, but for the other three years totalled only [redacted]
- [redacted] was incurred in 2022 for 'leased assets' but only [redacted] in total for the other three years.
- ***Observations:***
  - for 2024 and for each year in AA5, GGT has forecast a share of 'Other Shared' of $1.33 million. It has derived this by removing its share of Brisbane premises costs and averaging the remainder.
  - if an average non-specific allowance was to be developed for this item, it would be reasonable to consider also removing the one-off costs for Perth premises and for 'leased assets.' We estimate that this would reduce the 2024 and annual AA5 'Other Shared' capex to $1.0 million.

The sharing proportion appears to be higher than is justified

159. GGT has adopted the same allocation percentages for shared capex as it has for corporate opex. GGT has allocated corporate opex after first excluding 'excluded projects' that in 2023 totalled [redacted] out of [redacted] total corporate opex; that is, one third of corporate opex. GGT describes these excluded projects as:

> *'Projects related to business development, electricity transmission development etc. that are not charged to individual assets.'*[68]

160. We would expect that APA Group's corporate capital investments would similarly benefit a range of such 'excluded' activities, yet GGT provides no evidence that it has deducted an allowance for these before seeking to allocate a proportion of corporate capex to GGP.

The information that GGT has now provided confirms that SaaS expenditure is included in the capex forecast

161. In IR EMCa52, we sought to understand how SaaS expenditure had been treated and to confirm that it had been capitalised, as claimed. For the years for which actual expenditure is available (i.e. 2020 to 2023), GGT provided an itemised listing of what it described as the '*SaaS component'* of each (relevant) capex project. We take this to mean that the SaaS

68 GGT response to IR EMCa52, Appendix A

component was included in the relevant capex and we note that the sum of the SaaS components is what GGT has deducted from its proposed corporate opex.[69]

162. We take this to indicate that SaaS was originally included in AA4 opex, but that it has been treated as capital for the purposes of GGT's regulatory submission and deducted from reported opex for the period.

69 There appears to be a slight error in GGT's workbook, in that the aggregate of the SaaS components (row 83 in sheet I|Shared capex) is in $2023, but these same numbers have been entered in row 36 in sheet 3.1.1 Breakdown, where they are deducted from opex in nominal terms. This overstates the deduction.