Attachment 8.3

Review of Labour Cost Rate Update

January 2025

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Dampier Bunbury Pipeline

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Australian Gas Infrastructure Group - Dampier Bunbury Pipeline

Access Arrangement 6 - Review of Labour Cost Rate Update

18 December 2024

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Introduction

BDO have been engaged by Australian Gas Infrastructure Group (AGIG) to review the Dampier to Bunbury Pipeline (DBP) labour on-cost charging rates for Access Arrangement 6 (AA6), 2026 - 2030. This report documents the scope, agreed approach and our findings.

Scope and Scope Limitations

The assignment is a consulting engagement as outlined in the 'Framework for Assurance Engagements', issued by the Auditing and Assurances Standards Board, Section 10. Consulting engagements employ an assurance practitioner's technical skills, education, observations, experiences and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to: objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results, and sometimes implementation and follow-up.

The nature and scope of work has been determined by agreement between BDO and AGIG. This consulting engagement does not meet the definition of an assurance engagement, as such we are not proposing an audit in accordance with generally accepted auditing standards.

Our report is prepared solely for the use of AGIG and its regulatory proposal to the Economic Regulation Authority (ERA) which we understand may be published by the ERA. No responsibility to any third party shall be accepted, as our report has not been prepared, and is not intended, for any other purpose.

This report is based on the latest information made available to us as at the date of this report and we accept no responsibility to update it for events that take place after the date of its issue. Financial information reviewed included budget and cost sheets to determine where labour costs have changed.

The following items have been excluded from the scope of this review:

1. Except as otherwise noted, we will not perform any testing on the information provided to confirm its completeness and accuracy.
2. In performing our procedures, we will rely upon certain representations made by AGIG and their representatives. We will not perform procedures to verify the accuracy or completeness of such representations.

Approach

To address the objectives of this assignment, the following procedures were determined, agreed and undertaken:

Phase 1: Business Understanding

In this phase, BDO engaged with AGIG project managers and key business representatives to understand the nature of the activities undertaken in the programs under review.

Opinion is being sought regarding the update of DBP labour on-costs from 2024 and assessment of the reasonableness of the update.

The update follows a review of salary on-costs for the 2024 budget and a reduction to DBP labour rates, which resulted in an increase to DBP regulatory operating expenditure (opex) as lower costs are charged to regulatory capital projects and other areas of the business where DBP labour is charged.

The report also considers the impact of lowering DBP labour rates with regards to accounting standards and standard practice in Australia, National Gas Rules (NGR) 91 operating expenditure criteria regarding ‘prudency’ and ‘efficiency’, National Gas Rules (NGR) 93 ‘appropriateness’ of the adjustment, and the implications for the calculation of the Efficiency Carryover Mechanism.

Phase 2: Business Information

In this phase, we conducted a review of the information obtained as part of phase 1.

Work completed:

- Review of the update to DBP labour on-costs from 2024 – assessment of reasonableness of the update considering Australian Accounting Standards, National Gas Rules (NGR) 91 operating expenditure criteria regarding ‘prudency’ and ‘efficiency’, and National Gas Rules (NGR) 93 ‘Appropriateness’ of the adjustment. Considered the reasonableness of expensing the costs associated with these programs for regulatory purposes considering accounting standards and regulatory practice in Australia. Further information in relation to guidance drawn from accounting standards and other relevant Australian Accounting Standards Board (AASB) pronouncements, is provided in Appendix 1.
- Efficiency Carryover Mechanism (ECM) – Assessment of the reasonableness to exclude the labour cost rate update from opex for the E-Factor calculation.

Phase 3: Report Findings

This report documents a summary of our findings (‘Key Findings’) and a detailed explanation of our findings (provided in Appendix 1).

Summary of Key Findings

Labour on-cost update

Based on the information provided we consider AGIG's proposed update to labour on-costs complies with Australian Accounting Standards, National Gas Rules, and is consistent with standard practice.

1. **Labour cost rates – The labour on-cost rate update is considered appropriate in terms of cost and percentages applied.**

   Direct labour cost rates were reduced from 50% to 35% and total labour related on-costs were reduced from 104% to 75%. Salary-related goods and services costs fell as a proportion of total salary costs. The adjusted labour on-cost rate complies with accounting standards and meets efficiency and prudency tests.

2. **Timing of the review – the labour on-cost review is considered timely.**

   The review is the first since 2016. There were no significant movements or review triggers until 2021 when tight labour market conditions existed. Actual wages and salaries reduced from $32.3 million in 2021 to $27.6 million in 2022, remaining below Benchmark until 2024.

3. **Total labour on-costs charged out reduce by an estimated $8.5 million, at the same time as filling a number of vacancies. In the context of overall labour costs, the increase appears to meet efficiency requirements.**

   Apart from the estimated $8.5 million increase due to the labour cost rate update (and re-allocation to opex), there have been relatively small staff increases to fill vacancies post-Covid (from 2023). Excluding the impact of the labour cost rate update, efficiency requirements have been met because the projected actual performance is within Benchmark requirements. We note that AGIG is no longer receiving the equivalent amount of revenue from capex projects and other areas of the business where the cost rates are charged, and it is reasonable to recover the full labour costs incurred as part of regulatory opex.

   The labour on-cost rate update of an estimated $8.5 million is also considered appropriate in terms of the share of costs and percentages applied.

4. **Rules impacts – Accounting classification, National Gas Rules - Classification shift from Capex to Opex complies with the standards and is consistent with standard practice.**

   Determination is at management judgement assuming that expense or asset classifications are met. Relevant National Gas Rules and Australian Accounting Standards are stewardship and ethics responsibilities required of institutions. This extends to prudency, efficiency and appropriateness, which as noted above, we consider that AGIG has complied with regarding the labour cost rate adjustment.

5. **Efficiency Carryover Mechanism – Capex to opex reclassification which has resulted in an efficient opex-based solution.**

   The labour cost rate included in the base year is different for the purpose of the Efficiency Carryover calculation and so needs to be excluded from the opex performance estimate. Exclusion definitions under the AA are justified and so. BDO supports it. This change can be considered a 'capex to opex' reclassification which has resulted in a more efficient opex outcome.

Appendix 1 – Review of labour on-costs

Background

Review of labour on-costs for the 2024 budget and reduction in DBP labour rates has resulted in an increase in DBP operating expenditure (opex) by an estimated $8.5 million with lower costs charged to regulatory capital projects and other areas of the business. Whilst hourly labour cost rates reduce by 25%, there is a proposed shift between regulatory opex, capex and operating to other areas.

An increase in labour costs occurs in 2024, which is mainly due to filling vacancies post-Covid. These increases are not considered high in the context of the overall workforce.

1. Labour on-costs

On cost review - Labour on-cost change estimated $8.5 million

Labour on-costs in the charge out rate are additional to ordinary time and include superannuation, payroll tax, leave, incentives, insurance and other relevant goods and services outlays. Currently consulting, audit, legal, travel and accommodation expenses are excluded.

Prior to 2024 the on-cost rate applied was 104%. The review of planned on-cost outlays has reduced this percentage to 75%, with additional salary on-costs reducing from 50% to 35%. The following table provides an estimated salary on-cost calculation (from a base build perspective):

Table 1 - Overhead on-cost calculation

Cost Item	%	Note
Superannuation	12.00	11.5% from 1/7/24, 12% from 1/7/25
Annual leave	7.69	4/52 weeks
Long service leave	3.85	2/52 weeks
Payroll tax	5.50	WA Industry rate
Workers compensation	1.80	Australian average
Sick leave	3.85	2/52 weeks
Total	**34.68**	

The salary related on-cost of 35% is therefore appropriate. BDO note that sick leave provided in the salary on-cost may not be actually incurred, but is included as a conservative costing approach, and may become a full or part actual replacement cost. Similarly, workers compensation costs, whilst provided for may also become an actual incurred expense. Conservative accounting and standard costing practice warrant provision of these cost items.

Non-salary on-costs of 40% related to goods and services outlays are based on historic and planned outlays of 40% and are therefore considered reasonable.

Labour on-cost total of 75% is therefore considered accurate, with little or no additional charges realised by applying this on-cost rate. The on-cost is therefore efficient, reasonable and appropriate.

Summary / Finding:

The labour on-cost rate of 75% is considered appropriate.

2. Timing of the labour on-cost review

Analysis of prior 'Benchmarks', budgets and costs indicate that DBP's wages and salaries expenses have recently increased due to labour cost rate updates, and additional staffing from the low level in 2022, due to the tight labour market through Covid and staff vacancies. The labour cost rate changes account for an estimated $8.5 million increase in labour costs, while the employee expense budget also reflects needs-based FTE estimates in real ($2024) terms. The wages and salary expenses have increased by 25% since 2022, while the number of staff have increased by 15% over this same time period (262 to 301). The increase in wages and salary expenses also incorporates increases in the superannuation guarantee levy and a 4% increase in the Total Capital Ratio (TCR).

We understand AGIG undertook a periodic review of its labour cost rates for DBP in 2023, the first since 2016. With resulting changes, the 2024 budget incorporates charge out rates to reflect the revised cost of service delivery. 2024 has been used for the base year for the adjustments, and results in an increase in operating outlays, offset mainly by a reduction in capital (capex) outlays. Variances between actual and Benchmark costs were initially apparent in 2022, when wages and salaries reduced to $27.6 million from $32.3 million the year before (in nominal terms).

Accordingly, a review by AGIG in 2023 of labour cost rates for DBP staff is considered timely and appropriate.

Summary / Finding:

Timing of the review is considered timely and appropriate.

3. Rules - Assessment of the reasonableness of the labour on costs update

As part of the revised Access Arrangement (AA) proposal for the Dampier Bunbury Natural Gas Pipeline (DBNGP), the Australian Gas Infrastructure Group has provided an operating expenditure (opex) forecast for the 2026 to 2030 AA period (AA6). The forecast includes the reallocation of costs into labour opex from 2024 as supporting evidence for the AA6 proposed opex. The classification as opex verses capex (capital / investing) is broadly considered in Australian Accounting Standards Board (AASB) Frameworks, Standards and Pronouncements. Relevant guidance is provided as follows in relation to management judgement, prudence, and classification as opex (operating expenditure) or capex (capital / investing outlays):

Labour cost rate update considerations – Accounting Standards and National Gas Rules

Accounting Standards considerations include:

- Australian Accounting Standards Board (AASB) – Conceptual Framework for Financial Reporting
- Australian Accounting Standards Board (AASB) – Framework for the Preparation and Presentation of Financial Statements
- Australian Accounting Standards Board (AASB) – AASB 116 – Property, Plant and Equipment.

  Management Judgement: The AASB Conceptual Framework for Financial Reporting at 1.11 states that *'To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The Conceptual Framework establishes the concepts that underlie those estimates, judgements and models. The concepts are the goal towards which the Board and preparers of financial reports strive. As with most goals, the Conceptual Framework's vision of ideal financial reporting is unlikely to be achieved in full, at least not in the short term, because it takes time to understand, accept and implement new ways of analysing transactions and other events. Nevertheless, establishing a goal towards which to strive is essential if financial reporting is to evolve so as to improve its usefulness.'*

Neutrality and Prudence: The AASB Conceptual Framework for Financial Reporting at 2.16 states that *'Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods.'*

Further at 2.17, *'The exercise of prudence does not imply a need for asymmetry, for example, a systematic need for more persuasive evidence to support the recognition of assets or income than the recognition of liabilities or expenses. Such asymmetry is not a qualitative characteristic of useful financial information. Nevertheless, particular standards may contain asymmetric requirements if this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.'*

Opex or Capex: Classification of outlays as Opex or Capex are described in the AASB Framework for the Preparation and Presentation of Financial Statements (Framework) at para 97 *'an expense is recognised immediately in the income statement when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.'* Operating expenses are costs associated with running the day-to-day operations of a business, and they are incurred in the process of generating revenue. Based upon the information provided the expenses described by AGIG are of an ongoing operational nature and are therefore considered operating expenditure. Whilst these outlays may also qualify as an Asset (as defined at Para 53 of the Framework) in that *'the future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents of the entity,'* they do not add to the value of existing assets by extending their life or increasing their capacity. We are also guided by the judgement of AGIG as preparers of the financial reports. Further Para 78 of the Framework defines expenses that *'encompass losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses that arise in the course of the entity include, for example, cost of sales, wages and depreciation.'* Para 97 of the Framework goes on to state *'An expense is recognised immediately in the income statement when an expenditure produces no further economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.'*

Asset classification / Capex is defined in the 'Framework' (Para 49) as '*A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.'* An expense (Opex) is defined (Para 70(b)) as *'decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.'*

The 'Framework' therefore supports management's treatment of these costs as opex. Based upon the information considered BDO consider that the costs associated with charge out rates as described by AGIG are of an ongoing operational nature and appropriately classified as operating expenditure. We suggest the forecast expenditure by AGIG as part of undertaking operations in the next Access Arrangement period, meets the definition of an operating expense as provided in Paragraph 69(b) of the 'Framework'. AASB Standard 138 Intangible Assets[1] scope definitions also provide the following guidance at Paragraph 4: *'in determining whether an asset that incorporates both intangible and tangible elements should be treated under AASB 116 Property, Plant and Equipment or as an*

[1] Australian Accounting Standards Board (AASB) 138 – Intangible Assets – Compilation no. 5 31 December 2022.

intangible asset under this standard, an entity uses judgement to assess which element is more significant.'

Summary Finding:

Standard Accounting practice allows classification as capex or opex depending upon the Framework criteria, ongoing nature, and management judgement. Classification change to opex meets Accounting Standards and practice.

4. Total operating expenditure - Opex forecast change and additional FTEs

Considering the estimated $8.5 million capex to opex shift provides a AA5 4 year average (2021 – 2024) wages and salaries cost of $33.1 million[2], compared to the 4 year average Benchmark of $31.8 million (nominal terms). The 9 year average (2016 -2024) wages and salaries is $30.9 million compared to Benchmark average of $31.6 million.

Covid related supply constraints and tight labour market conditions have impacted opex results in AA5, with significant savings in 2021 and 2022. Excluding the estimated $8.5 million reallocation of labour into opex from capex and other projects, the estimated 2024 wages and salaries would reduce from $41.6 million to $33.1 million, which is below the benchmark, and supports efficiency measurement requirements under National Gas Rules. Actual expenditure for the AA5 years 2022 and 2023 are below the Benchmark amounts for these years further supporting the efficiency claim. As stated above, it is only the inclusion of the re-allocated on-costs into actual expenditure from 2024 (but not included in the Benchmark) which contributes to estimated expenditure exceeding the Benchmark.

Table 2 – Operating expenditure summary.

Operating expenditure summary
$ nominal

	AA4 Benchmark					AA5 Benchmark					Average - benchmark	
Category	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**last 4 years**	**last 9 years**
Wages & Salaries	29.7	30.5	31.4	32.2	33.1	29.2	31.5	32.9	33.8	35.1	31.8	31.6
Field expenses	8.1	8.3	8.4	8.5	8.6	11.6	12.6	13.1	13.4	13.9	12.7	10.3
Non-field expenses	14.1	14.4	14.7	14.9	15.2	12.3	13.3	13.8	14.2	14.7	13.4	14.1
Government Charges	7.4	7.5	7.6	7.7	7.8	8.8	9.4	9.8	10.1	10.5	9.5	8.5
System Use Gas	36.3	35.3	36.3	37.3	38.4	21.3	22.0	21.6	16.5	16.3	20.4	29.4
Reactive maintenance	1.3	1.3	1.3	1.4	1.4	1.8	2.0	2.0	2.1	2.2	2.0	1.6
GEA & Turbine overhauls	5.3	7.3	9.1	5.2	5.2	8.9	7.9	8.2	1.2	2.5	6.6	6.5
Capex to Opex						2.4	2.1	2.5	2.5	2.3	2.4	2.4
Total	**102.3**	**104.6**	**108.7**	**107.2**	**109.7**	**96.3**	**100.8**	**103.9**	**93.8**	**97.4**	**98.8**	**103.1**
	AA4 Actual					AA5 Actual					Average - actual	
Category	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**last 4 years**	**last 9 years**
Wages & Salaries	29.5	31.1	27.5	27.8	30.1	32.3	27.6	30.9	41.6	46.3	33.1	30.9
Field expenses	15.4	14.8	13.6	14.8	13.6	8.8	10.4	10.6	13.4	12.4	10.8	12.8
Non-field expenses	12.5	13.3	12.8	15.0	20.8	12.3	12.2	15.3	15.1	15.8	13.7	14.4
Government Charges	6.7	5.8	7.7	8.3	6.8	7.3	7.5	8.7	10.5	12.3	8.5	7.7
System Use Gas	23.2	26.8	27.6	32.0	27.6	23.2	24.1	25.2	24.8	19.6	24.3	26.1
Reactive maintenance	1.9	1.2	1.5	2.8	2.1	1.6	1.7	1.6	1.3	1.5	1.6	1.7
GEA & Turbine overhauls	1.5	0.7	0.6	1.4	3.6	7.0	10.3	9.8	5.0	0.7	8.0	4.4
Capex to Opex						2.7	3.2	2.3	4.2	2.9	3.1	3.1
Total	**90.7**	**93.7**	**91.3**	**102.0**	**104.5**	**95.2**	**96.8**	**104.3**	**115.9**	**111.6**	**103.0**	**99.4**

Additional FTEs and cost analysis - Staffing increase of 39 FTEs have been proposed for 2023 and 2024, and reflect a return to normal business operating levels post-Covid. This represents an 25.6% increase in employee expenses (in real terms), but a 14.9% increase in overall FTE's. This increase also includes rises

[2] 2024 actuals are budget.

in superannuation (0.5%), the Total Capital Ratio (4%), and post-COVID workforce requirements. The actual wages and salaries cost in 2023 of $30.9 million is proposed to increase to $41.6 million in 2024 (as above, in nominal terms).

In considering labour on-cost reallocations and staffing changes, it is noted that AGIG will no longer receive revenue from capex projects and other areas of the business for that portion, however they are still incurring the labour costs. Whilst their efficiency is not impacted, there exists a need to recover these costs through the regulatory allowance, as no other cost recovery options exist.

A review of costs since 2016 indicate the following:

- AA4 Wages and Salaries Actual costs have increased by 0.4% pa from $29.5m (2016) to $30.1 million (2020), an increase of $0.6 million or 1.8% over 5 years. Actual costs are well below the Benchmark for AA4, contributing to arguments about how the business has maintained efficiency over time.
- Excluding the impact of the labour cost rate ($8.5 million), AA5 Wages and Salaries actual costs increased by $0.8 million from $32.3 million (2021) to $33.1 million (2024 estimate), an increase of just 2%. The gross increase ($9.3 million) compares to $4.6 million for the Benchmark period. The increase compares is consistent with low national wages growth during this period, with significant wages growth in recent periods. The Wage Price Index rose by 0.9% in the December 2023 Quarter, and 4.2% over the year, with quarterly increases exceeding 1.3% since December 2020.[3]
- There have been relatively small staff increases to fill vacancies post-COVID (from 2023).
- It is also noted that AGIG's actual labour costs (excluding the labour cost rate adjustment) have not increased at the same rate as the CPI.

Summary / Findings:

In the context of overall labour costs, we consider the labour cost rate adjustment meets efficiency requirements. Changes to total labour on-costs charged out occur at the same time as filling a number of vacancies (over Covid) from 2023. Apart from the estimated $8.5 million increase due to the labour cost rate update, there have been relatively small staff increases to fill vacancies post-Covid, with the cost increases still below Wage Price Index growth levels.

We note AGIG are no longer receiving revenue from capex projects and other areas of the business, for that portion of labour, however AGIG are still incurring the labour cost.

5. Efficiency Carryover Mechanism (ECM or E factor) - Capex to opex reclassification resulting in a more efficient opex-based solution.

AGIG propose that the labour reallocation costs are excluded from the ECM calculation for AA6, as this does not provide a like for like comparison of opex efficiency. The reallocation of costs would otherwise be included in actuals / forecast for the business, but would not be in the Benchmark, and so would incur an 'inefficiency penalty' of approximately $21million (based on the incremental expenditure estimates provided by AGIG (including the additional exclusion of the 'Inspections and Other Asset Management' opex item and the formula for the ECM).

[3] Wage Price Index, Australia, December 2023 | Australian Bureau of Statistics (abs.gov.au)

> We note that the impact of COVID-related supply constraints and tight labour market conditions have contributed to variable opex over AA5, with estimated savings of $7.8 million in real ($Dec2024) terms in 2022 alone and subsequent recovery of conditions from 2023 (with an additional $2.3 million in expenses in 2023, and a further increase of $9.9 million in 2024, including the labour cost rate but just $1.4 million excluding it).

The ECM allows for the following exclusions:

> *15.11 The annual E Factor Benchmark is the total annual operating expenditure forecast approved by the ERA, less the following E Factor exclusions:*
>
> *(a) movement in provisions;*
>
> *(b) any operating expenditure sub-category not forecast using a top-down, revealed cost approach. These costs:*
>
> *(i) may include, but are not limited to, operating costs incurred by the Operator relating to: A. system use gas; and B. non-recurrent operating expenditure.*
>
> *(ii) must not include operating expenditure previously classified as capital expenditure that was forecast on a bottom-up basis.*
>
> *(c) any operating expenditure amount not included in the ERA approved operating expenditure forecast, but that meets the requirements of Rule 91(1) and was incurred for the purpose of reducing capital expenditure;*
>
> *(d) the Operator will adjust the E Factor Benchmark to include the forecast operating expenditure arising from the cost pass through event or ERA approved expenditure arising from cost pass through events which apply in respect of that year; and*
>
> *(e) any other operating expenditure amount that the ERA agrees or requires the Operator to exclude from the E Factor Benchmark.*

We consider the labour cost rate update meets the exclusion requirement for clause 5.11(c) above.

We note that the impact of COVID-related supply constraints and tight labour market conditions have contributed to variable opex over AA5, with estimated savings of $7.8 million in real ($Dec2024) terms in 2022 alone and subsequent recovery of conditions from 2023 (with an additional $2.3 million in expenses in 2023, and a further increase of $5.5 million in 2024).

Total overall combined opex and capex outlays incurred have otherwise not changed other than for efficiencies and the post covid staffing workforce requirements.

If the labour cost rate adjustment is not excluded from actual opex performance for 2024 in the calculation of the efficiency carryover then it is considered it would result an inconsistent ERA comparison. We understand AGIG does not have an opportunity to recover these costs from elsewhere in the business with the cost rates adjusted.

The 23 January 2020 ERA Access Arrangement[4] approval 12.2 stated (in referencing DBP's comments):

[4] Economic Regulation Athority – Access Arrangement for period 2021-2025 - DBP AA5 Proposed Access Arrangement and Access Arrangement Information – Final Plan Attachment 12.2 Proposed Opex Incentive Scheme Additional Information E Factor (Public) – published 23 January 2020.

'With regard to the potential for reducing opex spend simply by incurring more capex, this is unlikely to be a significant risk at DBP. Our typical capex forecast is relatively low, with the majority of business activities relating to operating and maintianing our long-established pipeline assets. Our actual capex is also tested internally (and exterrnally bt the ERA) for prudence and efficiency before it can be rolled into the capital base.

We also propose that if during the access arrangement period we identify a more efficient opex-based solution that can be adopted in place of capex, this opex is excluded from the E Factor BBenchmark. This means we will have an ongoing incentive to deliver the most efficient solution – whether opex or capex – and have the flexibility in-period to substitute capex for opex (or vice versa) where effoicient to do so.'

It is suggested that Exclusion definitions under the AA are met regarding the labour cost rate adjustment amount in the Efficiency Carryover Mechanism given the fact that the rates were different in the Benchmark and the action by AGIG meets standard accounting practice and results in more efficient combined opex and capex outlays.

Summary / Findings:

Based upon the information provided we consider the capex to opex reclassification has resulted in more efficient overall opex and capex outcomes, and meet standard accounting principles. Therefore, BDO supports the exclusion from the calculation of the Efficiency Carryover Mechanism to ensure that a like-for-like comparison for the purpose of efficiency assessment is made.

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