Economic Regulation Authority

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

Overview

18 December 2024

D284882

Economic Regulation Authority

Level 4, Albert Facey House

469 Wellington Street, Perth WA 6000

Telephone 08 6557 7900

Email info@erawa.com.au

Website www.erawa.com.au

This document can also be made available in alternative formats on request.

National Relay Service TTY: 13 36 77

Contents

List of appendices

1. Overview

This final decision is the Economic Regulation Authority's response to Goldfields Gas Transmission's proposed five-year plan for the Goldfields Gas Pipeline (referred to as an access arrangement). It covers the period from 1 January 2025 to 31 December 2029 (the fifth access arrangement period, or AA5).

To make this decision, the ERA has undertaken a detailed assessment of Goldfields Gas Transmission's (GGT) proposal to ensure that all intended expenditure is efficient and prudent.

The Goldfields Gas Pipeline (GGP) is a transmission pipeline, carrying gas from the Carnarvon Basin, and more recently via the Northern Goldfields Interconnect to major mining operations inland in the Pilbara and Goldfields regions. While this ERA decision increases the reference tariff set for the pipeline for the next five years, most customers are on negotiated time-bound contracts and so will not be immediately affected.

While GGT's proposal for investment across the next five years is largely consistent with the previous access arrangement period, the broader economy is now experiencing higher inflation and interest rate costs. A higher rate of return makes up 33 per cent of the revenue increase from the AA4 final decision.

The ERA has also increased the amount of GGT's revenue it considers efficient and prudent from its position in the draft decision, which has increased the reference tariff.

To reach this final decision the ERA has considered expert opinions and analysis from external independent consultants. The ERA has also taken account of the revised national gas objective, which now requires us to consider expenditure to reduce carbon emissions in line with government targets. Further explanation of the matters informing the final decision can be found in this overview document and the attachments that together comprise the ERA's final decision.

Final decision

The ERA has approved total revenue of $345.8 million in this final decision, $46.9 million lower than GGT's revised proposal ($392.6 million), but $22.2 million higher than the ERA's draft decision ($323.6 million).

The ERA's final decision differs from the draft decision published in July 2024 in the following key ways:

- Capital expenditure
  - The AA4 'stay in business' capital expenditure increased from $32.3 million to $40 million, which mainly included changes to cost allocation.
  - The AA5 'stay in business' capital expenditure reduced from $44 million to $43.5 million, reflecting the removal of an incorrectly allocated delivery point.
  - The ERA maintained its draft decision position of not accepting the AA4 shared capital expenditure of $26.5 million as it should have been charged as an operating cost.
  - The ERA has not accepted GGT's AA5 shared capital expenditure of $12.8 million but has allowed $10.3 million of these costs as operating expenditure.

- Operating expenditure
  - As noted above, the ERA has moved $10.3 million in shared capital expenditure to operating expenditure, via an asset utilisation charge.
  - The ERA has used 2023 expenditure information to help determine base year operating expenditure, which increases expenditure by $10.2 million over AA5.

The main driver of increasing tariffs is the rate of the return, which is largely determined by financial market conditions. Rates of return have risen for all the assets the ERA regulates over the last few years, reflecting the inflationary environment. The updated rate of return account for 33 per cent of the total increase in revenue between the last GGP access arrangement and this one.

Reference tariff

GGT provides a single reference service via the pipeline – the Firm Transportation Service. There is a three-part tariff structure for this service comprising toll, capacity reservation and throughput charges. These tariff components will increase by 30 per cent, 51 per cent and 46 per cent, respectively, on 1 January 2025.

As mentioned above, GGT's customers on negotiated contracts will be unaffected by this increase. The higher reference tariff will inform negotiations for any new customers seeking to access the pipeline.

Asset life cap for regulatory depreciation

GGT proposed to cap asset lives at the weighted average remaining life of the pipeline and laterals asset class (which represents the core of the gas pipeline). This limits the maximum economic life of any asset to 2065 and avoids situations where new conforming capital expenditure would have a greater asset life than the related pipeline.

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

The asset life cap proposal results in a small $0.3 million ($ real, 2023) increase in revenue for AA5, which will not have a material impact on gas consumption or tariffs.

2. Final decision

The ERA's final decision is to not approve GGT's revised access arrangement proposal for its gas transmission pipeline, which was submitted on 5 September 2024.

A summary of the final decision is provided in Section 3 of this document, and the process that the ERA followed to make this decision is set out in Section 4. Detailed reasons for the final decision are set out in the following (separate) attachments, which together form the ERA's final decision:

- Attachment 1: Access arrangement and services
- Attachment 2: Demand
- Attachment 3: Revenue and tariffs
- Attachment 4: Regulatory capital base
- Attachment 5: Operating expenditure
- Attachment 6: Depreciation
- Attachment 7: Return on capital, taxation, incentives
- Attachment 8: Other access arrangement provisions
- Attachment 9: Service terms and conditions

The amendments that the ERA requires to GGT's revised access arrangement are set out in the final decision attachments. A summary of these required amendments is provided in Appendix 2.

Pursuant to the regulatory framework, the ERA must now itself propose revisions to the access arrangement for the Goldfields Gas Pipeline and make a decision to give effect to its proposal, within two months of this final decision.[1]

This final decision constitutes the decision that gives effect to the ERA's proposed access arrangement revisions.

As required, the ERA has determined its proposed revisions to the access arrangement having regard to the regulatory requirements, GGT's revised proposal and the ERA's reasons for not approving it. The ERA has made the necessary revisions to GGT's revised access arrangement proposal, consistent with the required amendments in this final decision.[2] The ERA has also drafted its own access arrangement information that contains the information required to understand the basis and derivation of the various elements of the approved access arrangement.

The ERA has published its final decision and approved access arrangement and access arrangement information.[3]

The ERA's approved access arrangement will take effect on 1 January 2025.[4]

1 NGR, rules 64(1) and 64(4).

2 NGR, rule 64(2).

3 NGR, 64(5).
See: ERA, 'GGP: Access Arrangement for Period commencing 2025' (online) (accessed December 2024).

4 NGR, rule 64(6).

3. Summary of final decision

3.1 Regulatory framework in Western Australia

The National Gas Law (NGL) and National Gas Rules (NGR), as enacted by the *National Gas (South Australia) Act 2008*, establish the legislative framework for the independent regulation of certain gas pipelines in Australia. The *National Gas Access (WA) Act 2009* implements a modified version of the NGL and NGR in Western Australia.[5]

During this review process there have been several changes to the legislative framework. Notably, the emissions reduction objective in the NGL commenced in Western Australia on 25 January 2024, with the NGR amended on 1 February 2024 to align the rules with the emissions reduction objective.[6] The amendments make it clear that gas network service providers can propose expenditure that contributes to meeting emissions reduction targets set by governments. Transitional provisions for access arrangement reviews that commenced prior to 1 February 2024 allow the ERA to adopt either the old expenditure rules or the new expenditure rules.[7]

The ERA has assessed GGT's proposal under the then current regulatory framework at the time of making each of its draft and final decisions. With respect to the amendments to align the NGR with the emissions reduction objective and the transitional provisions that allow the ERA to apply either the old or new expenditure rules for this review, the ERA has applied the new expenditure rule for capital expenditure that was incurred (or forecast to be incurred) after 1 February 2024 and the old expenditure rule for capital expenditure that was incurred prior to 1 February 2024. Forecast operating expenditure for AA5 has been assessed based on the new expenditure rules.

3.2 Access arrangement and services

In its access arrangement proposal, GGT:

- Identified the pipeline to which the access arrangement relates as the Goldfields Gas Pipeline, with a description of the pipeline available on the APA website (GGT's parent company).
- Stated the access arrangement review submission date and revision commencement date as 1 January 2028 and 1 January 2030, respectively.
- Specified the Firm Transportation Service as the single reference service to be offered under the access arrangement, with a further seven services to be offered as non-reference services.

5 The NGL as implemented in Western Australia is set out as a note in the *National Gas Access (WA) Act 2009*. See: Western Australian Legislation (online) (accessed November 2024).

At the time of this decision, National Gas Access (WA) Act 2009, 25 January 2024 was in effect.

The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed November 2024).

At the time of this decision, National Gas Rules – Western Australia version 12 (1 February 2024) was in effect.

6 AEMC, *National Gas Amendment (Harmonising the national energy rules with the updated national energy objectives) Rule 2024*, 1 February 2024.

7 NGR, Schedule 1 Part 20, rule 103.

The ERA approved the abovementioned elements of GGT's access arrangement proposal in the draft decision, subject to GGT:

- Correcting the review submission date to 1 January 2029, after identifying the date of 1 January 2028 was an error.
- Considering the addition of kilometre reference points for each receipt and delivery point on the pipeline to improve the description of the pipeline.

GGT's revised proposal corrected the review submission date to 1 January 2029.

While GGT noted the ERA's suggestion to amend the pipeline description to include kilometre reference points, it did not elect to address this in its revised proposal.

The ERA maintains its position that the description of the pipeline would be improved by adding kilometre reference points as part of the information that describes the receipt and delivery points on the pipeline. The ERA has, however, accepted GGT's decision to leave the description of the pipeline as is because the description satisfies the minimum requirements of the NGR.

Noting the above considerations, the ERA approves GGT's pipeline description, access arrangement dates and reference services for inclusion in the access arrangement for AA5.

3.3 Demand

Demand forecasts are used to determine required levels of capital and operating expenditure, and to set reference tariffs for the access arrangement period. There is only one reference service, the Firm Transportation Service, provided by means of the covered (regulated) GGP. The ERA has reviewed GGT's revised demand forecast for this service for AA5.

GGT's revised demand forecast is based on forecasts of contracted capacity and throughput from the Yarraloola receipt point and the newly commissioned Northern Goldfields Interconnect (NGI) receipt point. The NGI was commissioned in July 2023, providing another connection conveying gas from the Dampier to Bunbury Natural Gas Pipeline to the GGP, approximately 1,062 kilometres south of the Yarraloola receipt point.

GGT slightly increased the contracted capacity forecast at the Yarraloola receipt point during AA5 by 0.3 petajoules (PJ) from its initial proposal, attributing this increase to gold mining and electricity generation contracts. GGT also reassessed demand at the NGI receipt point since its initial proposal, incorporating changes, such as those resulting from contract delays, and, notably, excluding contracts previously considered as highly probable that are not confirmed for AA5. As a result, GGT reduced the contracted capacity forecast at the NGI receipt point by 29 PJ.

GGT revised its gas throughput forecast for existing contracts by incorporating 2023 actual demand into its load factor (gas throughput rate) analysis. For existing contracts, the gas throughput forecast is based on a weighted average actual load factor of each contract during AA4. For new contracts, GGT applied the weighted average load factor of all contracts on the covered GGP to forecast AA5 gas throughput. Total gas throughput decreased by 23 PJ mainly attributed to the exclusion of (previously considered) "highly probable" contracts at the NGI receipt point, as noted above, and a decrease in gas throughput demand in the nickel sector following BHP's announcement of the suspension of Nickel West's operation.

For AA5, GGT has forecast a contracted capacity of 227 PJ and a gas throughput of 195 PJ, with an average load factor of 86 per cent.

The ERA has reviewed GGT's revised demand forecast and considers that GGT has taken reasonable steps to reassess the demand forecast. The ERA accepts GGT's revised demand forecast, apart from the gas throughput forecast for gold mining contracts.

The ERA maintains its draft decision position that the load factor for new gold mining contracts should be based on the actual average load factor between 2020 and 2023 for the gold mining sector, rather than the weighted average load factor of all contracts on the covered GGP.

For AA5, the ERA forecasts contracted capacity of 227 PJ, which is the same as GGT, and gas throughput of 198 PJ, which is 3 PJ higher than the GGT forecast (Table 1).

Table 1: AA5 Firm Transportation Service demand forecast (PJ)

	GGT revised proposal	ERA final decision	Variance	Variance (%)
Yarraloola receipt point				
Maximum contracted capacity	201.5	**201.5**	0.0	0.00
Average contracted capacity	201.5	**201.5**	0.0	0.00
Average gas throughput	172.1	**174.4**	2.3	1.34
NGI receipt point				
Maximum contracted capacity	25.6	**25.6**	0.0	0.00
Average contracted capacity	25.6	**25.6**	0.0	0.00
Average gas throughput	22.6	**23.5**	0.9	3.98
Covered GGP total				
Maximum contracted capacity	227.1	**227.1**	0.0	0.00
Average contracted capacity	227.1	**227.1**	0.0	0.00
Average gas throughput	194.7	**197.9**	3.2	1.64

3.4 Revenue and tariffs

The regulatory framework provides for an amount of revenue to be determined for each year of the access arrangement period to provide GGT with its efficient costs to operate the GGP for the long-term interest of customers.

GGT's revenue includes:

- A return on the projected capital base (section 3.8 of this Overview).
- Depreciation on the projected capital base (section 3.7 of this Overview).
- The estimated cost of corporate income tax (section 3.8 of this Overview).
- A forecast of operating expenditure (section 3.6 of this Overview).

Reference tariffs are then calculated by allocating the portion of the costs/revenue relevant to those reference services and dividing by the forecast demand (section 3.4 of this Overview) for those services.

3.4.1 Total revenue

The ERA has determined a total revenue requirement for AA5 of $345.8 million based on the decisions for the components of revenue (Table 2). This approved amount is $46.9 million less than GGT's revised proposal ($392.6 million).

The main differences between GGT's revised proposal and the ERA's final decision are for the return on the capital base and depreciation due to the ERA's amended capital expenditure for both the AA4 and AA5 periods as shown in Table 3.

Table 2: ERA final decision total revenue requirement for AA5 ($ million nominal)

	2025	2026	2027	2028	2029	Total
Operating expenditure	29.28	28.48	28.22	29.36	29.41	144.75
Return on capital base	30.09	31.54	31.85	31.89	31.74	157.11
Regulatory depreciation						
Depreciation	13.68	15.53	16.22	16.78	17.28	79.49
Inflationary gain	(9.63)	(10.10)	(10.20)	(10.21)	(10.16)	(50.30)
Regulatory income tax						
Corporate income tax	5.59	5.38	5.69	6.15	6.60	29.41
Imputation credits	(2.79)	(2.69)	(2.85)	(3.07)	(3.30)	(14.70)
Total revenue (unsmoothed)	**66.22**	**68.14**	**68.93**	**70.90**	**71.57**	**345.76**

Table 3: ERA final decision total revenue requirement for AA5 compared to GGT revised proposal ($ million nominal)

	GGT revised proposal	ERA final decision	Difference
Operating expenditure	149.74	144.75	(4.99)
Return on capital base	176.99	157.11	(19.88)
Regulatory depreciation			
Depreciation	108.72	79.49	(29.23)
Inflationary gain	(59.56)	(50.30)	9.26
Regulatory income tax			
Corporate income tax	33.49	29.41	(4.08)
Imputation credits	(16.74)	(14.70)	2.04
Total revenue (unsmoothed)	**392.62**	**345.76**	**(46.86)**

3.4.2 Allocation of total revenue

There is only one reference service for the GGP (the Firm Transportation Service) and all costs are allocated between the covered and uncovered portions of the pipeline. As a result, 100 per cent of the revenue determination in this final decision is allocated to the covered pipeline and is recovered from the reference tariff for the Firm Transportation Service.

3.4.3 Reference tariffs

GGT proposed to retain the same reference tariff structure in AA5 for the single reference service as it provided in AA4. It is comprised of three components or charges:

- Toll charge: 11.3 per cent of total revenue allocated.
- Capacity reservation charge: 72.2 per cent of total revenue allocated.
- Throughput charge: 16.5 per cent of total revenue allocated.

The ERA has not made any changes to the tariff structure.

Table 4 shows the reference tariffs to apply from 1 January 2025 that result from this final decision compared to GGT's revised proposal.

Tariffs in the years following (1 January 2026 onwards) will be adjusted in accordance with the tariff variation mechanism.

Table 4: ERA final decision tariff for 1 January 2025 compared to GGT revised proposal ($ nominal)

Tariff component	GGT revised proposal	GGT increase (%)	ERA final decision	ERA increase (%)
Toll	0.195086	48	0.171632	30
Capacity reservation	0.001369	72	0.001205	51
Throughput	0.000363	69	0.000314	46

Note: Tariff increase is the nominal percentage increase in the tariff from the current 2024 approved tariff.

3.4.4 Tariff variation mechanism

The reference tariff variation mechanism allows the reference tariff to vary over the course of the access arrangement period. The mechanism includes an annual tariff adjustment to account for differences between actual and forecast inflation and other approved tariff adjustments for cost pass through events where relevant.

GGT has accepted the ERA's draft decision required amendments relating to the tariff variation (cost pass through) mechanism, which required GGT to delete its proposed new cost pass through events for insurance coverage, insurer credit risk and regulatory change.

For AA5, the following cost pass through events will apply:

- Change in law event [existing]
- Tax change event [existing]
- Natural disaster event [new]
- Terrorism event [new]
- Carbon cost event [new].

To encourage efficient regulatory costs, the materiality threshold for claiming cost pass through events is set to a minimum value of $1 million.

Additionally, the minimum notification period for cost pass through events for natural disasters, terrorism and carbon costs has been set to 90 business days, which is 50 business days more than the notification period for change in law and tax change events. The assessment of these new cost pass through events is likely to be more complex than the existing cost pass through events and may require consultation with stakeholders and/or independent specialist advice.

3.5 Regulatory capital base

3.5.1 Stay in business capital expenditure

GGT's proposed 'stay in business' capital expenditure amounts for AA4 and AA5 are reasonable.

On the basis of the information provided by GGT in its revised proposal the ERA accepts stay in business capital expenditure for AA4 of $40.0 million and for AA5 of $43.5 million. To form this opinion:

- For AA4, the ERA reviewed increased costs for the Wiluna pre-NGI project and for gas engine alternator upgrades at Yarraloola. In both cases, the ERA is satisfied with GGT's explanations.
- For AA5, GGT proposed an amount that was slightly less than the draft decision. The ERA reviewed the basis for specific changes that GGT had made and consider that the proposed amount is reasonable.

3.5.2 Shared capital expenditure

3.5.2.1 AA4 capital expenditure

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

In the draft decision, the ERA determined that GGT's shared AA4 capital expenditure was not permitted expenditure of a capital nature incurred to provide pipeline services, and these costs should have been accounted for as operating expenditure. In addition, in its initial proposal, GGT did not demonstrate that this expenditure was not covered by increasing APA Group operating corporate costs. Among these costs, APA also included a charge to GGT for operating expenditure, which covers corporate and management services such as information technology and leased assets.

In its revised proposal, GGT did not accept the ERA's draft decision and stated that there was no "double dipping" of shared costs across its capital and operating expenditures.[8]

GGT reduced the shared capital expenditure amount in the revised proposal to $26.5 million, due to an adjustment to cyber security (as GGT is capitalising a smaller proportion of these costs) and the use of actuals for 2023 and a part of 2024.[9]

The ERA reviewed advice from technical consultant, EMCa, and GGT's revised proposal and is satisfied that GGT is not recovering capital costs through its operational APA Group charge.[10]

However, the ERA does not approve GGT's proposed AA4 shared capital expenditure. The ERA maintains the view that these costs (which for GGT are a small share of the parent company's related capital costs) should be treated as operating expenditure; and consequently should have been accounted for as part of the AA4 operating expenditure. The ERA has reached this conclusion for the following reasons:

- Categorising assets that are on the parent company's balance sheet as assets for the regulated entity is contrary to the long-term interest of users of the pipeline. Parent company assets remain assets of the parent company and not the regulated entity. Consequently, if such assets are added to the regulated capital base and the regulated business is sold, the corporate assets would remain on the regulated asset base despite there no longer being any continued benefit to pipeline services derived from these assets.

8 GGT, Revised Proposal Overview, September 2025, p. 30.

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

10 EMCa, Final technical report, Nov 2024, p. 38; GGT, EMCa IR 52.

- Over time, if the company's asset is used differently by the parent company's subsidiaries, including the regulated entity, then the share of cost recovery should change. Treating it as a capital asset will fix the allocation at the current allocation.
- The position is analogous to the previous treatment of parent company management fees. APA charged, and the ERA approved, management fees as operating expenditure in AA4 and previous access arrangements. GGT has noted that these fees were not based on costs and could reasonably be considered as margins or on costs that contributed to APA's investment in its corporate infrastructure.
- In this regard, GGT has already moved to expense more cyber security expenditure than its initial proposal, which suggests that these are costs properly categorised as operating costs that have been treated as capital expenditure for the purposes of GGT's regulatory submission. "Software as a service" is an operating cost in the parent company accounts.
- The ERA approves the cost allocation at each access arrangement review and it was last reviewed for AA4 in December 2019. The ERA had not considered a cost allocation of shared capital expenditure in AA4 as it had not been proposed.

3.5.2.2 AA5 capital expenditure

GGT proposed $15.9 million of capital expenditure for AA5, which represented a share of assets purchased by its parent company, APA Group to provide services across the APA Group portfolio of businesses.

In the draft decision, the ERA did not allow this shared AA5 capital expenditure as these costs should have been accounted for as part of GGT's shared AA5 operating costs.

GGT did not accept ERA's draft decision, and similar to its proposed shared AA4 capital expenditure, reiterated that there was no "double dipping" between the operating and capital expenditure costs allocated to APA.

GGT reduced the shared amount of AA5 capital expenditure to $12.8 million, due to the updated forecast for "other" shared capital expenditure and the adjustment to cyber security (as GGT is capitalising a smaller proportion of these costs).[11]

For this final decision, the ERA does not approve the AA5 shared capital expenditure for the same reasons outlined in the AA4 capital expenditure summary above. The ERA has reviewed GGT's proposed amount of AA5 shared capital expenditure allocated by APA to the covered pipeline, in order to determine an amount of APA capital expenditure that may be charged as operating expenditure to GGT via an asset utilisation charge. The ERA has determined that $10.3 million out of GGT's proposed $12.8 million represents efficient operating expenditure. This has been added to the AA5 operating costs and, for this access arrangement, will be expensed in the year it is incurred.

3.5.3 Cost allocation

3.5.3.1 Cost allocators due to the incorporation of the NGI

In its initial proposal, GGT proposed a change to the capacity allocators (both capacity (terajoule [TJ] per day) and capacity-distance (TJ x km/day)) due to the incorporation of the

[11] GGT, Revised Proposal Overview, September 2025, p. 32.

NGI as the GGP capacities increase due to the added NGI interconnection. This applied to both AA4 (for the years 2023 and 2024) and AA5.

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

In the revised proposal, GGT did not agree with the ERA's draft decision for similar reasons as expressed in its initial proposal. GGT suggested that it was not consistent to accept the forecast increase in contracted capacity on the GGP but not the consequent change to the allocators.

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

3.5.3.2 Consistency between the AA4 and AA5 cost allocators

In its initial proposal for AA5 capital expenditure, GGT used capacity-distance allocators for the costs that are dependent on distance (for example, in-line inspection) and capacity allocators for costs that were non-compression-based and not distance-related.[12] However, for AA4, GGT proposed to only use the capacity-distance allocators, submitting that this was consistent with the ERA's AA4 final decision. However, GGT did update this allocator based on the post-NGI capacity for the AA4 years 2023 and 2024.

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

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

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

12 Shared costs related to compressor stations is allocated based on the proportion of covered compressor units at that compressor station.

3.6 Operating expenditure

The ERA's final decision for AA5 operating expenditure is $132.42 million (real 2023 dollars). This is $23.02 million higher than the draft decision and $2.42 million less than GGT's revised proposal.

The main reasons for the increase in forecast operating expenditure for the final decision compared to the draft decision are:

- The ERA included 2023 calendar year information to determine the base year. GGT's 2023 actual costs were higher than its 2022 actual expenditure. After making an adjustment to GGT's corporate cost base year value the ERA has accepted a base year value that is $2.04 million higher than was determined in the draft decision. When applied to every year of the AA5 period, this results in an increase of $10.20 million.
- Forecast operating expenditure costs for security of critical infrastructure expenditure during the AA5 period have increased by $2.76 million. This increase has not come from an increase in overall SOCI expenditure (operating and capital costs) but from a reallocation of some costs regarded as capital in GGT's initial proposal, now being treated as operating expenditure costs in its revised proposal.
- The ERA has included an "asset utilisation charge" to account for GGT's usage of APA capital asset infrastructure of $10.30 million.

3.7 Depreciation

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

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

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

The ERA has accepted GGT's base depreciation proposal, which maintains the current depreciation approach used in AA4. However, as the ERA did not consider that GGT's proposed shared capex was allowable capital expenditure, that associated depreciation was not allowed by the ERA.

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

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

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

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

3.8 Return on capital, taxation and incentives

Rate of return

The rate of return provides service providers with the funding to pay interest on loans and give a return on equity to investors. The rate of return is expressed as a weighted average cost of capital (WACC).

A gas rate of return instrument is required under the NGL.[13] This gas instrument sets out the methods the ERA and service providers will use to estimate the allowed rate of return and the value of imputation credits for gas transmission and distribution service providers. GGT's proposed rate of return was consistent with the ERA's gas rate of return instrument.

Changing economic and financial conditions are important factors in determining GGT's cost of capital and the regulatory value of its capital base. The rate of return in this final decision was updated for current market conditions, with a 20-trading day averaging period to 27 September 2024. Higher rates of inflation account for 33 per cent of the total increase in revenue between the AA4 final decision and the AA5 final decision. Updated rates of return also account for 33 per cent of the total increase in revenue between the AA4 final decision and AA5 final decision.

Taxation

A tax building block is included in the annual revenue requirement estimate. The taxation cost is calculated by multiplying the estimated taxable income by the statutory income tax rate of 30 per cent. The estimated taxation payable is calculated by deducting the value of imputation credits.

GGT's method of calculating AA5 taxation was consistent with its approach in AA4.

In its revised proposal, GGT introduced two new asset categories in the AA5 tax asset base to better reflect information technology and shared corporate costs. As noted above, the ERA has not accepted GGT's shared capital corporate expenditure and has instead reviewed this as operating expenditure. As a result, the ERA has removed the two new asset categories proposed by GGT.

Incentive mechanisms

The NGR provide that a full access arrangement may include incentive mechanisms to encourage efficiency in the provision of services by the service provider.[14] An incentive mechanism may provide for the carrying over increments for efficiency gains, and decrements for losses of efficiency, from one access arrangement period to the next.

13 NGL, section 30D, 30E.

14 NGR, rule 98.

The current (AA4) access arrangement does not contain any incentive mechanisms, and GGT did not propose any incentive mechanisms for AA5. The ERA's draft decision accepted GGT's proposal and reasons for not including any new incentive mechanism for AA5. The ERA's final decision maintains this position.

3.9 Other access arrangement provisions

As a transmission pipeline, the GGP access arrangement must contain queuing requirements. It must also contain extension and expansion requirements, capacity trading requirements and principles for changing receipt and delivery points.

3.9.1 Queuing requirements

For AA5, GGT proposed extensive drafting changes to the queuing requirements to simplify them and to ensure that the requirements are commercially workable.

The ERA's draft decision conditionally approved GGT's proposed changes, subject to GGT making some additional amendments to clarify certain provisions and/or correct drafting errors. The ERA set out nine specific required amendments.

GGT's revised proposal accepts the ERA's draft decision required amendments.

The ERA is satisfied that GGT's revised proposed access arrangement incorporates the required amendments. The ERA's final decision is to approve GGT's revised queuing requirements for AA5.

3.9.2 Other requirements

The extension and expansion requirements, capacity trading requirements, and principles for changing receipt and delivery points remain unchanged from the current (AA4) provisions.

Given these provisions remain consistent with the requirements of the NGR, and that there were no submissions raising any concerns, the ERA maintains its draft decision position that there is no reason to require any amendments to these provisions for AA5.

3.10 Service terms and conditions

The regulatory framework requires the access arrangement to specify, for each reference service, a reference tariff and the other terms and conditions on which the service will be provided.

The terms and conditions approved under an access arrangement establish standard terms and conditions that users can either accept or use as a point of reference to negotiate their own terms and conditions to meet specific operational needs. In the event terms and conditions cannot be agreed, the access arrangement may be used to guide an arbitrator in an access dispute.

GGT provides a single reference service under the access arrangement – the Firm Transportation Service. The terms and conditions for the Firm Transportation Service are set out in Section 2.2 and Schedules D and T of the proposed access arrangement.

GGT's proposed terms and conditions for the Firm Transportation Service remained materially unchanged from the current (AA4) terms and conditions.

The ERA's draft decision was to conditionally approve GGT's proposed terms and conditions subject to GGT:

- Amending the definition of "receipt point" in Schedule T of the proposed access arrangement to match the amended definition in Schedule C of the proposed access arrangement, unless there was a valid reason for these definitions to remain different.
- Considering amendments to the structure of the proposed access arrangement to incorporate the definitions that apply to the reference service terms and conditions into those terms and conditions. That is, existing Schedule T (C1 Definitions and Interpretation) forming part of Schedule D (Terms and Conditions applying to the Firm Transportation Service).

GGT's revised terms and conditions have addressed the ERA's required amendment of the definition of receipt point – the definition in Schedule T is now the same as the definition in Schedule C.

The revised terms and conditions also include other minor (administrative) amendments, which the ERA considers do not materially change the terms and conditions. For this reason, the ERA has accepted these other minor amendments.

GGT did not elect to amend the structure of the access arrangement document as suggested by the ERA in the draft decision. While the ERA appreciates that the access arrangement (which incorporates the terms and conditions for the reference service) is a complex document, this should not deter GGT from undertaking a general review of it to improve layout and readability. The ERA encourages GGT to address this matter as part of the next access arrangement review process.

4. Review process

4.1 Regulatory framework

The NGL and NGR, as enacted by the *National Gas (South Australia) Act 2008*, establish the legislative framework for the independent regulation of certain gas pipelines in Australia. The *National Gas Access (WA) Act 2009* implements a modified version of the NGL and NGR in Western Australia.[15]

The legislative framework for the regulation of gas pipelines includes a central objective, being the national gas objective, which is:

> To promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to—
>
> (a) price, quality, safety, reliability and security of supply of natural gas; and
>
> (b) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.
>
> **Note—**
>
> The AEMC must publish targets in a targets statement: see section 72A.[16]

Under the legislative framework, the ERA is responsible for regulating third-party access to gas pipelines in Western Australia. GGT's gas transmission pipeline is one of three regulated pipelines that require an access arrangement to be approved by the ERA under the legislative framework.[17]

An access arrangement provides details of the terms and conditions, including prices, for the provision of pipeline services to a third party to transport and/or receive gas. Once approved, the access arrangement may serve as a benchmark for negotiating access to pipeline services that are offered by means of the regulated pipeline.

As the service provider, GGT is responsible for developing and proposing a relevant access arrangement for its transmission pipeline. As the regulator, the ERA is responsible for assessing the proposed access arrangement against the legislative requirements set out in the NGL and NGR and approving a compliant access arrangement.

---

15 Government of Western Australia, 'Western Australian Legislation: National Gas Access (WA) Act 2009' (online) (accessed December 2024).

AEMC, 'National Gas Rules (Western Australia)' (online) (accessed December 2024).

16 NGL, section 23.

The national gas objective has changed since the last review of GGT's access arrangement. The amended objective came into effect in Western Australia on 25 January 2024. See: *Western Australian Government Gazette 24 January 2024 No.8* (online) (accessed December 2024).

17 The other pipelines which require an approved access arrangement in Western Australia are the Dampier to Bunbury Natural Gas Pipeline (a transmission pipeline) and the Mid-West and South-West Gas Distribution Systems (a distribution pipeline).

4.2 Access arrangement requirements

Rule 48 of the NGR sets out the required content of an access arrangement. These requirements are summarised in Table 5. In addition, rules 90 and 92 set out further requirements relating to the calculation of depreciation and revenue equalisation.

Table 5: Required content of an access arrangement proposal

Legislative requirement	Legislative reference
Proposal identifies the pipeline to which the access arrangement relates and includes a reference to a website where a description of the pipeline can be inspected.	NGR 48(1)(a)
Proposal describes all the pipeline services that the service provider can reasonably provide (and is consistent with the ERA's reference service proposal decision, unless there has been a material change in circumstances).	NGR 48(1)(b)
Proposal specifies the reference services (and is consistent with the ERA's reference service proposal decision, unless there has been a material change in circumstances).	NGR 48(1)(c)
If the pipeline services and reference services information is different to the ERA's reference service proposal decision, proposal describes the material change in circumstances that necessitated the change having regard to the reference service factors.	NGR 48(1)(c1)
For each reference service, proposal specifies the reference tariff and the other terms and conditions on which each reference service will be provided.	NGR 48(1)(d)
If the access arrangement is to contain queuing requirements, proposal sets out the queuing requirements.	NGR 48(1)(e)
Proposal sets out the capacity trading requirements.	NGR 48(1)(f)
Proposal sets out the extension and expansion requirements.	NGR 48(1)(g)
Proposal states the terms and conditions for changing receipt and delivery points	NGR 48(1)(h)
If there is to be a review submission date, proposal states the review submission date and the revision commencement date.	NGR 48(1)(i)
If there is to be an expiry date, proposal states the expiry date.	NGR 48(1)(j)

In addition to its access arrangement proposal, the service provider must submit Access Arrangement Information (AAI).[18] AAI is information that is reasonably necessary for users (including prospective users) to understand the background to the access arrangement; and the basis and derivation of the various elements of the access arrangement.[19] AAI must include any information that is specifically required by the NGL and NGR. In particular, rule 72 sets out requirements for AAI relevant to price and revenue regulation. These requirements are summarised in Table 6 (below).

The NGR also provide for the following general requirements for all financial information:

[18] NGR, rule 43.

[19] NGR, rule 42.

- All financial information must be provided on a nominal or real basis, or some other recognised basis for dealing with the effects of inflation (rule 73).
- All information in the nature of a forecast or estimate must be supported with a statement explaining it. A forecast or estimate must be arrived at on a reasonable basis and must represent the best forecast or estimate possible (rule 74).
- Information that is of the nature of an extrapolation or inference must be supported by the primary information on which the extrapolation or inference is based (rule 75).

Table 6: Requirements for Access Arrangement Information (AAI) relevant to price and revenue regulation

Legislative requirement	Legislative reference
If the access arrangement period commences at the end of an earlier access arrangement period, AAI includes: • Capital expenditure (by asset class) over the earlier access arrangement period. • Operating expenditure (by category) over the earlier access arrangement period. • Pipeline use over the earlier access arrangement period showing: – for a distribution pipeline: minimum, maximum and average demand; and for a transmission pipeline: minimum, maximum and average demand for each receipt or delivery point. – for a distribution pipeline: customer numbers in total and by tariff class; and for a transmission pipeline: user numbers for each receipt or delivery point.	NGR 72(1)(a)
AAI includes information on how the capital base is arrived at and, if the access arrangement period commences at the end of an earlier access arrangement period, a demonstration of how the capital base increased or diminished over the previous access arrangement period.	NGR 72(1)(b)
AAI includes the projected capital base over the access arrangement period, including: • A forecast of conforming capital expenditure for the period and the basis for the forecast. • A forecast of depreciation for the period including a demonstration of how the forecast is derived on the basis of the proposed depreciation method.	NGR 72(1)(c)
AAI includes, to the extent it is practicable to forecast pipeline capacity and utilisation of pipeline capacity over the access arrangement period, a forecast of pipeline capacity and utilisation of pipeline capacity over that period and the basis on which the forecast has been derived.	NGR 72(1)(d)
AAI includes a forecast of operating expenditure over the access arrangement period and the basis on which the forecast has been derived.	NGR 72(1)(e)
AAI includes the allowed rate of return for each regulatory year of the access arrangement period.	NGR 72(1)(g)
AAI includes the estimated cost of corporate income tax calculated in accordance with rule 87A, including the allowed imputation credits referred to in that rule.	NGR 72(1)(h)

Legislative requirement	Legislative reference
If an incentive mechanism operated for the previous access arrangement period, AAI includes the proposed carry-over of increments for efficiency gains, or decrements for efficiency losses, in the previous access arrangement period and a demonstration of how allowance is to be made for any such increment or decrements.	NGR 72(1)(i)
AAI includes the proposed approach to the setting of tariffs, including the suggested basis of reference tariffs including the method used to allocate costs and a description of any pricing principles employed.	NGR 72(1)(j)
AAI includes the service provider's rationale for any proposed reference tariff variation mechanism.	NGR 72(1)(k)
AAI includes the service provider's rationale for any proposed incentive mechanism.	NGR 72(1)(l)
AAI includes the total revenue to be derived from pipeline services for each regulatory year of the access arrangement period	NGR 72(1)(m)

4.3 Processes and timeframes

The process for gas access arrangement reviews has changed since the ERA's last review of GGT's access arrangement for its transmission pipeline in 2019. There are now two key stages involved in the assessment process for an access arrangement:

- Stage A: Reference service proposal submission and assessment.
- Stage B: Access arrangement proposal submission and assessment.

4.3.1 Reference service proposal

The reference service proposal is focused on identifying the full range of pipeline services that can be offered by means of the pipeline and determining which of these services should be specified as a reference service under the access arrangement.[20] The proposal must be submitted at least 12 months prior to the access arrangement proposal.

GGT submitted a reference service proposal for its distribution network on 21 December 2022. After a period of consultation, the ERA approved the single reference service set out in GGT's reference service proposal on 21 June 2023.[21]

The approved reference service proposal determined which pipeline services are to be specified as reference services in the access arrangement for GGT's transmission pipeline.[22] GGT must set out its proposed terms, conditions and prices for the approved reference

[20] A "reference service" is a pipeline service that has a reference tariff that is set (approved) by the regulator under the access arrangement framework, with the reference tariff being the price that a pipeline operator can charge its customers.

[21] ERA, *Reference service proposal decision: Proposed reference services for the Goldfields Gas Pipeline submitted by Goldfields Gas Transmission*, 21 June 2023 (online) (accessed December 2024).

[22] Rules 48(1)(c) and (c1) of the NGR allow GGT to specify different reference services in its access arrangement proposal if there has been a material change in circumstances since the ERA's reference service proposal decision.

services, along with proposed revisions to other access arrangement provisions, in its access arrangement proposal.

4.3.2 Access arrangement proposal

Scheduled revisions to GGT's access arrangement for its transmission pipeline were last approved in December 2019 for the period 1 January 2020 and finish on 31 December 2024, being the fourth access arrangement period (AA4).[23] The review submission date in the AA4 access arrangement is 1 January 2024.

GGT submitted its access arrangement proposal for the next (AA5) access arrangement period, 1 January 2025 to 31 December 2029, in accordance with the AA4 review submission date. The ERA must assess the proposal in accordance with the provisions of the regulatory framework. The procedure for dealing with an access arrangement proposal is set out in rules 58 to 62 of the NGR.

4.3.3 Timeframes

In most cases, individual review processes are subject to legislated timeframes. These timeframes may change over the course of the review, to the extent the legislation allows, depending on the circumstances at the time.[24] A timeframe for the review of GGT's access arrangement proposal is set out in Table 7.

Table 7: Timeframe for the review of GGT's access arrangement proposal

Review process stage	Legislated timeframe	Actual date
Stage A: Reference service proposal (completed)		
GGT reference service proposal submitted to ERA	12 months prior to the review submission date for the access arrangement	21 December 2022
Public consultation on GGT's proposal	A period of at least 15 business days	10 February 2024 to 10 March 2024
ERA reference service proposal decision published	No later than 6 months prior to the review submission date for the access arrangement	21 June 2023

23 ERA, *Final Decision on Proposed Revisions to the Goldfields Gas Pipeline Access Arrangement for 2020 to 2024: Submitted by Goldfields Gas Transmission Pty Ltd*, 19 January 2019.

24 Further to setting timeframes for specific processes, the NGR allows certain time periods ('stop-the-clock' periods) to be disregarded when calculating the time elapsed for a process. For example, under rule 11(1)(c), any period allowed for public submissions on an access arrangement proposal or on the ERA's draft decision can be disregarded when calculating the time elapsed for the publication of the ERA's final decision.

Review process stage	Legislated timeframe	Actual date
Stage B: Access arrangement proposal (in progress)		
GGT access arrangement proposal submitted to ERA	By the review submission date in the current access arrangement	21 December 2023
Initiating notice published by ERA to notify of GGT's proposal	As soon as practicable after receipt of proposal (a delay of up to 30 business days is allowed if the ERA finds the proposal to be deficient and requires GGT to correct the deficiency)	29 January 2024
Public consultation (1st round) on GGT's proposal	A period of least 20 business days after publication of initiating notice	29 January 2024 to 8 April 2024
ERA issues paper published	[not applicable]	12 March 2024
ERA draft decision published	No legislated timeframe	25 July 2024
Hearing about the ERA draft decision (if, requested by a person and/or provided by ERA)	If a hearing is to be requested by a person, the request must be made within 10 business days after the publication of the draft decision	[not scheduled]
Revision period for GGT to submit a revised proposal in response to the ERA draft decision	A period of at least 30 business days after publication of the draft decision	26 July 2024 to 5 September 2024
Public consultation (2nd round) on ERA draft decision and GGT's revised proposal	A period of at least 20 business days from the end of GGT s revision period	6 September 2024 to 8 October 2024
ERA final decision published	Within 8 months from the receipt of GGT's access arrangement proposal, with an extension of up to an additional 2 months (i.e. 10 months in total)	18 December 2024
Access arrangement start date	Date specified in the final decision (or otherwise 10 business days after the date of the final decision)	1 January 2025

Appendix 1 List of Tables

Appendix 2 List of Required Amendments

In making its draft decision, the ERA has identified various required amendments for GGT to address. These required amendments appear in the attachments to the draft decision which set out the ERA's considerations and reasoning for its decision. A summary of these required amendments is provided here.

Attachment 1: Access arrangement and services

No required amendments.

Attachment 2: Demand

2.1 The capacity and throughput forecasts for AA5 must be amended to reflect the values in Table 2.3 of Final Decision Attachment 2.

Attachment 3: Revenue and tariffs

3.1 The total revenue requirement for AA5 must be amended to reflect the values set out in Table 3.8 of Final Decision Attachment 3.

3.2 Schedule A of the revised access arrangement, which details the reference service tariff components, must be amended to reflect the approved tariffs set out in Table 3.9 of Final Decision Attachment 3.

Attachment 4: Regulatory capital base

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

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

Attachment 5: Operating expenditure

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

Attachment 6: Depreciation

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

Attachment 7: Return on capital, taxation and incentives

7.1 The return on capital base must reflect the weighted average cost of capital parameters in Table 7.8 of Final Decision Attachment 7.

7.2 The estimated cost of corporate income tax must be amended in accordance with Table 7.12 of Final Decision Attachment 7.

Attachment 8: Other access arrangement provision

No required amendments.

Attachment 9: Service terms and conditions

No required amendments.

Appendix 3 Submissions

Submissions from interested parties are listed below.

Submissions on GGT proposal and/or ERA issues paper
Alinta Energy (Alinta)

Submissions on GGT revised proposal and/or ERA draft decision
There were no submissions.

Appendix 4 Abbreviations

AA4	fourth access arrangement period (1 January 2020 to 31 December 2024)
AA5	fifth access arrangement period (1 January 2025 to 31 December 2029)
AAI	Access Arrangement Information
CPI	Consumer Price Index
ITOT	information technology and operational technology
NGL	National Gas Law
NGR	National Gas Rules
RAB	regulated asset base
WACC	weighted average cost of capital
WARL	weighted average remaining life