Economic Regulation Authority

Final decision on access arrangement for the Mid-West and South-West Gas Distribution Systems (2025 to 2029)

Attachment 5: Operating expenditure

8 November 2024

D283309

Acknowledgement of Country

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

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

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

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Note

This attachment forms part of the ERA's final decision on the access arrangement for the Mid-West and South-West Gas Distribution Systems. It should be read in conjunction with all other parts of the final decision, which is comprised of the following document and attachments:

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Attachment 5. Summary

A forecast of operating expenditure needed over the access period is one of the components used to determine the amount of revenue that ATCO requires to operate the gas network.

ATCO's revised proposal included $441.6 million total operating expenditure for 2025 to 2029 (the sixth access arrangement period or AA6). This was $104.2 million more than the ERA's draft decision of $337.4 million.

ATCO determined its proposed operating expenditure for AA6 using the base-step-trend method combined with specific forecasts for unaccounted for gas (UAFG) and ancillary services.

The ERA has reviewed ATCO's revised proposal and has determined that $428.6 million for operating expenditure will be required for AA6. The main reasons for the increase in forecast operating expenditure for the final decision compared to the draft decision are:

- The ERA accepted the use of 2023 calendar year information to determine the base year instead of 2022 calendar year information. Actual expenditure during 2023 was $4.3 million higher than in 2022, which when applied for every year of the AA6 period, the difference is $21.5 million.
- ATCO had provided mislabelled information prior to the draft decision which the ERA relied upon when making AA6 expenditure adjustments in its draft decision. This incorrect information resulted in $34 million not being included in the draft decision that should have been approved as conforming expenditure.
- The ERA included $11.8 million over AA6 for short-term employee incentive program payments based on further justification for these payments by ATCO.
- ATCO proposed additional step changes as well as providing additional information on a number of step changes which were rejected in the draft decision that have now been approved resulting in an increase of $12.0 million.

The ERA has considered information provided by ATCO, public submissions and findings from the ERA's technical consultant EMCa to determine the amount of operating expenditure that meets the requirements of the National Gas Rules.

Table 5.1 ERA final decision forecast operating expenditure for AA6 ($ million real as at 31 December 2023)

	ATCO proposal	Draft decision	ATCO revised proposal	Final decision
Base operating expenditure	312.6	253.5	332.2	326.6
Recurrent step changes	22.5	5.1	27.6	13.1
Non-recurrent step changes	40.3	9.3	11.0	13.3
Output growth escalation	10.4	14.0	9.3	14.9
Input cost escalation	12.4	4.1	9.6	5.2
Sub-total network, corporate and IT	**398.0**	**286.0**	**389.7**	**373.1**
UAFG	30.8	31.8	29.6	30.3
Ancillary services	27.1	19.6	22.2	25.2
Total forecast operating expenditure	**455.9**	**337.4**	**441.6**	**428.6**

Source: ERA Analysis.

Base year

ATCO's operating costs in 2023 were $78.9 million. ATCO proposed to remove $7.4 million in non-recurrent expenditure and two cost categories for which it will undertake specific forecasts in AA6 – UAFG ($3.0 million) and ancillary services ($2.0 million) – resulting in annual recurrent operating costs of $66.4 million for the base year.[1]

The ERA has determined that the efficient base year operating expenditure should be reduced by $1.1 million only allowing efficient levels of short-term incentive payments (to $2.35 million) and stakeholder engagement (to $2.31 million). The ERA has determined an efficient base year cost of $65.3 million for ATCO's AA6 operating expenditure.

Step changes

Step changes are additional operating costs not incurred in the base year. Costs can be ongoing from a particular time, be one-off expenditure, or have a non-annual ongoing frequency that falls outside the base year.

In its initial proposal, ATCO proposed 11 step changes (seven recurrent and four non-recurrent) totalling $62.6 million ($22.5 million for recurrent and $40.1 million for non-recurrent expenses). The ERA's draft decision determined that only $14.4 million could be included for step changes for ATCO's AA6 proposal.

In its revised proposal, ATCO proposed nine step changes that were not included in its initial proposal in addition to 10 of the 11 step changes from its initial proposal. The 19 step changes total $38.7 million, with 16 of the step changes being recurrent ($27.6 million), and three step changes being non-recurrent ($11.0 million).

[1] Non-recurrent expenditure includes: [redacted] costs, AA6 submission costs, corporate restructuring, inline pipeline inspection program, clean energy innovation hub and short term incentive payments.

For the recurring step changes, the ERA has accepted (in part or full) six of the 16 proposed, totalling $13.1 million. For the non-recurring step changes, the ERA has accepted (in part or full) two of the three proposed, totalling $9.7 million.

In addition, the ERA has decided to include an additional non-recurrent step change for carbon emission reductions to the value of $3.7 million, taking the total approved non-recurring step changes to $13.3 million.

Trends

ATCO has included operating expenditure that it will incur outside of the base or step cost categories for forecast growth of the network and for forecast increase in prices.

ATCO incurs additional expenditure as the number of customers connected to the network and the size of the network increases. ATCO determined a total increase of $9.3 million in operating expenditure over AA6 resulting from the increase in customers and size of the network.

While the ERA has accepted ATCO's proposed method for determining forecast network growth expenditure, it has not accepted ATCO's forecast customer connections. The ERA has determined an expenditure value of $14.9 million for forecast growth over AA6. This value is higher than ATCO's proposed AA6 expenditure, because the ERA has determined an increase in the forecast number of customers connecting to the network over AA6. While additional expenditure has been included to account for a higher customer number forecast, these additional customers will pay tariffs that more than offset this increase and help to reduce costs for all existing customers.

Forecast price growth typically accounts for price increases in labour and non-labour costs. ATCO has not applied any real cost escalation for non-labour costs. The ERA has accepted ATCO's proposal to not include a real price escalation for non-labour costs.

ATCO has proposed forecast price growth to labour costs based on the Wage Price Index for Western Australia and has included a premium for added wage costs based on the electricity, gas, water and waste services industry sector. ATCO has included $9.6 million in operating expenditure in its AA6 forecast based on its labour cost escalation method.

The ERA has not accepted ATCO's proposal for a premium on top of the Wage Price Index for staff working in the electricity, gas, water and waste services industry. The ERA will allow labour escalation at a forecast rate for the Wage Price Index for Western Australia.

Applying the ERA's cost escalation method and reductions in the base and step expenditures, the ERA has determined the real labour escalation to be included in AA6 operating expenditure to be $5.2 million.

Unaccounted for gas

UAFG is the difference between the measurement of the quantity of gas delivered into the gas distribution system over a given period and the quantity of gas delivered from the gas distribution system during that period. ATCO incurs costs to purchase gas to replace the calculated UAFG.

ATCO has proposed to include $29.6 million in UAFG expenditure in operating expenditure for AA6. ATCO's UAFG percentage has increased between the initial and revised proposals, this is predominately the result of the identification of a calculation error by the Australian Energy Market Operator, which provides ATCO with its UAFG percentages.

The ERA has determined that $30.3 million of UAFG can be included in AA6 operating expenditure. The ERA's value differs from ATCO's proposal due to the ERA's revised demand forecast of gas consumption and the price of the UAFG.

ATCO had proposed to include the injection of biomethane into the network to partially account for UAFG. The cost of biomethane is higher than the cost of the natural gas that is currently used for UAFG. As set out in the AA6 capital expenditure review, the ERA has determined that the capital expenditure required to inject biomethane into the network is not conforming capital expenditure as the legislation allowing this to occur has not yet been enacted in Western Australia. As a result, ATCO is unable to inject biomethane into the network as part of its UAFG and is required to source natural gas.

Ancillary reference services

ATCO has included operating expenditure for ancillary reference services of $22.2 million in its AA6 proposal. ATCO's forecast ancillary service volumes are based on historical growth and current retailer demands. ATCO stated that ancillary service costs have been forecast based on the current costs of providing those services.

The ERA considered information provided by ATCO, public submissions and findings from EMCa to determine the amount of operating expenditure that meets the requirements of the National Gas Rules.

The ERA has determined that $25.2 million for ancillary reference services be included in AA6 operating expenditure. The ERA's value differs from ATCO's proposal due to the ERA's revised demand forecast for ancillary reference services and for the revised permanent disconnection unit cost of undertaking that service.

Working capital

ATCO included $12.2 million for return on working capital in its AA6 revised proposal. The working capital model has three core components: inventory, creditors and receivables. ATCO maintained its working capital parameters from its initial proposal for the three components.

The ERA has accepted the working capital parameters proposed by ATCO. However, the ERA's determination for a return on working capital differs from ATCO's proposal because of required amendments to other aspects of the proposal, such as, for example, capital and operating expenditure.

The ERA has determined a value of $11.0 million for a return on working capital for AA6.

Summary of required amendments

5.1 The access arrangement information must be amended to reflect a forecast operating expenditure for AA6 of $428.6 million ($ million real at 31 December 2023).

5.2 The access arrangement information must be amended to reflect a return of working capital for AA6 of $11.0 million ($ million real at 31 December 2023).

Regulatory requirements

1. The *National Gas Access (WA) Act 2009* implements a modified version of the National Gas Law (NGL) and National Gas Rules (NGR) in Western Australia. The rules referenced in this decision are those that apply in Western Australia.[2]

2. Under the regulatory framework, operating expenditure means:

> Operating, maintenance and other costs and expenditure of a non-capital nature incurred in providing pipeline services and includes expenditure incurred in increasing long-term demand for pipeline services and otherwise developing the market for pipeline services.[3]

3. A forecast of operating expenditure is one of the components (or building blocks) for determining the service provider's total revenue requirement using the building block approach, which is required by the regulatory framework set out in the NGR.[4] The total revenue requirement is the amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline (that is, the service provider's cost of service).

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

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

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

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

[2] 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.

[3] NGR, rule 69.

[4] NGR, rule 76.

6. The NGR requires the following operating expenditure information to be included in the service provider's Access Arrangement Information (AAI).[5]

- Where an access arrangement commences at the end of an earlier access arrangement period, AAI must include operating expenditure (by category) for each year of the earlier access arrangement period (rule 72(1)(a)(ii)).
- AAI must include a forecast of operating expenditure over the forthcoming access arrangement period and the basis on which the forecast has been derived (rule 72(e)).

[5] NGR, rule 72.

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.

ERA draft decision

7. ATCO proposed $455.9 million in operating expenditure for AA6. In the draft decision, the ERA determined a value of $337.4 million for AA6 operating expenditure.

8. The ERA used the base-step-trend approach to forecasting operating expenditure for network, corporate and IT categories, along with "specific forecasts" for UAFG and ancillary services, as was proposed by ATCO in its initial proposal.

9. ATCO used its 2022 actual operating expenditure as the base year for the AA6 forecast. The ERA accepted ATCO's 2022 actual operating expenditure as the most representative of revealed costs on which to forecast AA6 costs.

10. ATCO's operating expenditure in 2022 was $74.7 million. To calculate its base year operating expenditure, ATCO removed $8.0 million in non-recurrent expenditure and the two cost categories for which it will undertake specific forecasts in AA6 – UAFG ($3.3 million) and ancillary services ($0.9 million) – resulting in annual recurrent operating costs of $62.5 million for the base year.

11. The ERA determined that an additional $11.8 million in expenditure, including corporate costs, renewable gas programs, staff bonuses and incentive payments and stakeholder engagement, should be removed from the base year. The ERA determined an efficient base year cost of $50.7 million for ATCO's AA6 operating expenditure.

12. In its initial proposal, ATCO proposed 11 step changes as part of its operating expenses in AA6, totalling $62.6 million. Seven of the step changes were recurrent, totalling $22.5 million, while four step changes were non-recurrent, totalling $40.1 million.

13. The ERA determined that only $14.4 million would be included for step changes for ATCO's AA6 proposal. The ERA accepted in part or full six of the 11 step changes proposed by ATCO.

14. ATCO included operating expenditure for the forecast growth of the network and for the forecast increase in input prices. ATCO included $10.4 million for additional expenditure as the number of customers connected to the network and the size of the network increases. The ERA determined an expenditure value of $14.0 million for forecast growth over the AA6 period. This value was higher than ATCO's proposed AA6 expenditure, because the ERA determined an increase in the forecast number of customers connecting to the network over the AA6 period.

15. ATCO specifically forecast expenditure of $30.8 million for UAFG in AA6. ATCO proposed to use a combination of natural gas, hydrogen and biomethane for its UAFG. Under current legislation, only natural gas is permitted to be injected into the network in Western Australia. The ERA determined in the draft decision that UAFG expenditure would be $31.8 million. While natural gas is currently cheaper than the biomethane ATCO had proposed to use, the ERA's draft determination for UAFG was higher than ATCO's due to the higher total customers expected to join the network in AA6 compared to ATCO's proposal.

16. ATCO also specifically forecast $27.1 million of operating expenditure for the provision of ancillary reference services. In the draft decision the ERA determined that the forecast value of ancillary services in AA6 was $19.6 million. This was due to the ERA determining lower unit cost values for the ancillary services proposed by ATCO.

17. In addition to ATCO's operating expenditure, the ERA determined that ATCO should be provided for a return on working capital, a return on a stock of funds that must be maintained by a service provider to pay costs as they fall due of $8.7 million in AA6.

18. The ERA required the following draft decision amendments to ATCO's initial proposal:

5.1 ATCO must amend its access arrangement information to revise its AA6 2022 base year operating expenditure to $50.7 million ($ real as at 31 December 2023).

5.2 ATCO must amend its access arrangement information to revise its AA6 recurrent step change operating expenditure to $5.1 million ($ real as at 31 December 2023).

5.3 ATCO must amend its access arrangement information to revise its AA6 non-recurrent step change operating expenditure to $9.3 million ($ real as at 31 December 2023).

5.4 ATCO must amend its access arrangement information to revise its AA6 output growth escalation operating expenditure to $14.0 million ($ real as at 31 December 2023).

5.5 ATCO must amend its access arrangement information to revise its AA6 input cost escalation operating expenditure to $4.1 million ($ real as at 31 December 2023).

5.6 ATCO must amend its access arrangement information to revise its AA6 unaccounted for gas operating expenditure to $31.8 million ($ real as at 31 December 2023).

5.7 ATCO must amend its access arrangement information to revise its AA6 ancillary services operating expenditure to $19.6 million ($ real as at 31 December 2023).

5.8 ATCO must amend its access arrangement information to revise its AA6 return on working capital to $8.7 million ($ real as at 31 December 2023).

ATCO response to draft decision

19. ATCO did not accept the ERA's draft decision operating expenditure for the AA6 period. ATCO accepted some elements of the ERA's draft decision but did not accept any of the eight required amendments in full.

20. ATCO submitted a revised proposal of $441.6 million for operating expenditure for the AA6 period.

21. ATCO maintained the approach, which was accepted by the ERA in the draft decision, to apply a base-step-trend approach to forecasting operating expenditure for network, corporate and IT categories, along with specific forecasts for UAFG and ancillary services.

22. ATCO has used 2023 actual operating expenditure as the base year for the AA6 forecast. In its initial proposal, ATCO used the 2022 actual operating expenditure as its base year, as did the ERA in its draft decision.

23. In addition to the seven recurrent step changes in its initial proposal, ATCO has proposed an additional nine recurrent step changes in its revised proposal. ATCO has forecast recurrent step changes to the value of $27.6 million, compared to $22.5 million in its initial proposal.

24. ATCO has proposed three non-recurrent step changes in its revised proposal, after accepting the ERA's draft decision to classify Software as a Service costs as capital expenditure instead of operating expenditure in the access arrangement. ATCO's three non-recurrent step changes total $11.0 million for the AA6 period.

25. As noted in Attachment 2 – Demand, of this final decision, ATCO did not accept the ERA's higher draft decision for customer connections to the network. The ERA used the higher customer connection values to determine the output growth escalation value of $14.0 million in the draft decision. ATCO has used a lower customer connection forecast to determine an output growth escalation value of $9.3 million in its revised proposal.

26. ATCO did not accept the ERA's draft decision for input cost escalation. ATCO, like in its original proposal, included a labour cost premium when calculating the labour cost escalation for the AA6 period. As a result, ATCO's proposed input cost escalation in its revised proposal is $9.6 million, which is $5.5 million higher than the ERA's draft decision value.

27. ATCO has not accepted the ERA's draft decision for UAFG. ATCO acknowledged and accepted the ERA's decision to approve ATCO's proposed UAFG percentages for AA6, however, it did not accept the ERA's decision on the UAFG volume and unit price.

28. ATCO has proposed to use a mix of natural gas and biomethane to cover its UAFG over AA6. As a result of using the mix of gases and lower volume of gas, ATCO proposes a value of $29.6 million for the AA6 period.

29. ATCO did not accept the ERA's draft decision for ancillary services expenditure. ATCO has determined different unit rates and volumes to the draft decision resulting in a revised forecast of $22.2 million for the AA6 period.

30. In addition to its operating expenditure forecast, ATCO revised its proposal for the return on working capital it required to maintain a stock of funds to make payments to $12.2 million.

Submissions to the ERA

31. The ERA received three submissions that discussed operating expenditure.

32. Alinta Energy considered that the ERA should take account of its observation that ATCO’s actual operating expenditure for the past two access arrangement periods has been significantly below the ERA’s forecasts. Alinta Energy noted that there is a lot of forecast operating expenditure information that is not publicly available and trusted that the ERA would review this information, including whether 2023 was the most efficient base year to use for forecasting. Alinta Energy also considered that ATCO’s inclusion of an industry sector premium for determining labour escalation is not appropriate.

33. Alinta Energy does not consider that ATCO’s ‘enabling renewable gases’ initiative (to provide for the injection of biomethane) would be incurred by a prudent service provider and that its associated operating expenditure is not efficient. Alinta Energy also noted that ATCO proposed $0.6 million to purchase Australian Carbon Credit Units (ACCUs) to ‘support ATCO’s emissions reduction targets’ and to ensure that ATCO has ‘improved access to investors and financiers’. Alinta Energy considered that ATCO is not required to purchase ACCUs and that customers will not benefit from ATCO achieving lower funding costs as the ERA’s Rate of Return Instrument sets the return on debt and equity with reference to benchmarked ‘efficient’ funding costs.

34. Wesfarmers Kleenheat Gas expressed concern over the potential over-estimation and historical underspending of ATCO’s operating expenditure. Wesfarmers Kleenheat Gas noted that there is a $64 million increase in ATCO’s proposed operating expenditure when compared to the current access arrangement period and questions the claims of efficiencies being passed through to customers. Wesfarmers Kleenheat Gas also expressed concern on the nine new step changes and ATCO’s rejection of the ERA’s draft decision on the step changes from ATCO’s initial proposal.

35. The WA Expert Consumer Panel commissioned a report from TRAC Partners which questioned whether, in light of ATCO’s proposal for accelerated depreciation, it was appropriate for ATCO to use a business-as-usual approach to forecasting its expenditure. TRAC Partners also noted that ATCO had not accepted the ERA’s draft decision to reduce “other corporate support costs”, and that ERA should ensure that there is no double counting of corporate functions with ATCO’s Canadian head office costs. TRAC Partners submitted that some short-term incentive program payments would seem prudent and consistent with regulatory practice. TRAC Partners noted that ATCO’s proposal to purchase biomethane for UAFG was more expensive than using natural gas and with cost of living pressures, the cheapest option should be selected.

36. TRAC Partners considered that ATCO’s reinstatement of recurrent step changes for renewable gas expenditure could not be supported based on the additional information ATCO has provided to justify it, particularly with cost of living pressures for consumers. TRAC Partners also considered that purchasing ACCUs should not be supported based on ATCO’s justification and that recent regulatory decisions, such as the AER’s decision on the APA Victorian Transmission Systems Access Arrangement, have not allowed service providers to include amounts for the cost of purchasing carbon credits.

37. TRAC Partners considered that it was unclear how the unit rate for the permanent disconnection ancillary service reflects the efficient costs of providing this service. TRAC Partners considered that a benchmarking comparison should be made of similar services in Australia and that before basing costs on actual 2023 costs, consideration should be made on whether there are other lower cost safe disconnection methods.

TRAC Partners also considered that if lower cost methods were developed during AA6 then this should be passed on to customers.

Final decision

38. The ERA has reviewed ATCO's revised proposed operating expenditure and considered advice from EMCa and submissions from stakeholders to determine the operating expenditure forecast for this final decision. There have been some significant changes from the ERA's draft decision forecast, primarily for base operating expenditure and step changes.

39. For base operating expenditure, the ERA has agreed with most of ATCO's revised proposal, which identified an error in corporate expenditure information that ATCO provided to the ERA prior to the draft decision. The ERA also agrees with ATCO's proposal to update the base year from 2022 to 2023, given that this information is now available and represents the most recent cost.

40. The ERA's final decision is set out following the base-step-trend components and the specific forecasts for UAFG and ancillary services.

Base year operating expenditure

41. In its initial proposal, ATCO used its 2022 actual operating expenditure as its base year costs. For the revised proposal, ATCO has used its 2023 actual operating expenditure for the starting point to derive the efficient base year for network, corporate and IT operating expenditure, as the 2023 calendar year is more recent, better reflects the current efficient costs and is the most representative of the recurrent operating expenditure for AA6.

42. ATCO's actual 2023 operating expenditure was $78.9 million. Removing the cost categories that are to be specifically forecast in AA6, being UAFG ($3.0 million) and ancillary services ($2.0 million), results in a 2023 operating expenditure for network, corporate and IT of $73.9 million.

43. ATCO has made six adjustments to the 2023 costs to remove non-recurrent costs in the base year, these reductions total $7.4 million:

- [redacted] costs ($4.3 million).
- preparation of the AA6 submission ($1.7 million).
- corporate restructuring ($0.1 million).
- inline pipeline inspection program ($0.3 million)
- Clean Energy Innovation Hub (CEIH) ($0.1 million)
- Short-Term Incentive Program (STIP) ($0.9 million).

44. As a result, ATCO's proposed base year operating expenditure for network, corporate and IT is $66.4 million. ATCO has provided for this amount for each year of the AA6 period.

45. The ERA has reviewed ATCO's calculation of the base year expenditure for network, corporate and IT expenditure and agrees with the removal of all items. However, the ERA considers that $1.4 million should be removed from ATCO's base year STIP instead of only $0.9 million as proposed by ATCO. This adjustment is explained further below.

46. The ERA considers that an additional adjustment to the base year operating expenditure for stakeholder engagement ($0.6 million) is required to determine a prudent and efficient base operating expenditure amount.

47. The ERA has determined that the base year operating expenditure for network, corporate and IT is $65.3 million.

Short term incentive program

48. In the draft decision, the ERA adjusted ATCO's base year expenditure for STIP to zero for the AA6 period. The ERA considered that STIP payments should be funded through outperformance and not be a separately funded program.

49. ATCO did not accept the ERA's draft decision and has again included STIP as part of its base year costs. As noted in paragraph 43, ATCO has proposed an adjustment of $0.9 million on the 2023 base year value of $3.8 million to bring the value of STIP down to $2.9 million.

50. ATCO asserted that this value is reasonable because:

- It is an essential element in its total compensation package to qualifying staff.
- Funding STIP only through financial outperformance is inconsistent with market practice.
- Previous regulatory approvals and consultant recommendations support and recognise STIP as an efficient cost.
- ATCO's STIP structure is consistent with market practice.
- The consequence of removing STIP would be detrimental to ATCO's need to be able to recruit and retain a highly skilled workforce.

51. ATCO also noted that its STIP payments are designed to influence a diverse set of outcomes over and above completing projects on time and on budget. These outcomes also include non-financial performance such as safety.

52. EMCa considers that a level of incentive-based remuneration is a relevant factor in attracting and retaining staff of the necessary calibre.

53. ATCO has acknowledged its STIP payments in 2023 were above trend. ATCO's proposed amount of $2.9 million is less than its actual expenditure in 2023 and has been derived from benchmarking information provided by one of its consultants, Mercer. However, EMCa notes the value of $2.9 million is still well above the trend level.

54. EMCa calculated a rolling five-year average for STIP payments since 2016 and notes that the last five-year period (2019 to 2023) is the first time that the average has gone above $2.0 million. EMCa notes that while annual variation in incentive payments is to be expected, since they are dependent on performance, allowing for $2.9 million per year for AA6 would effectively entrench this high watermark for the next five years.

55. EMCa considers that a reasonable approach is to allow an amount that represents (in real terms) the average such payment over the past five years. EMCa considers that averaging such costs provides a reasonable measure of revealed cost and mitigates the possibility that a decision to award STIP at a particular level in a base year becomes self-perpetuating as a regulatory cost.

56. EMCa calculated a five-year average of $2.35 million for the last five years for ATCO.

57. The ERA has reviewed the additional information provided by ATCO in its revised proposal that the STIP payments are not only related to financial targets and outcomes. As a result, not all outperformances will have financial benefits in which to self-fund the program.

58. Payments within this program should be related to actual incentive targets and outcomes and if payments are being made within this program where performance is not linked to it, then these payments should be included directly into salaries and should not remain in the incentive program. Likewise, as the title states, this is for short-term payments, where a payment is guaranteed each year then it would stop being in the STIP.

59. The ERA has concerns with the dollar value of these payments, which has increased in the last few years significantly. ATCO has made a reduction to the STIP value from its 2023 actual of $3.8 million down to $2.9 million but this value is still higher than the five-year rolling average.

60. The STIP will have higher and lower value years depending on results and as such a five-year historical rolling average is more representative of the actual costs that ATCO will incur from the program.

61. As a result, the ERA has determined that $2.35 million should be included in base year costs for STIP payments.

Corporate - Other corporate support costs

62. In the draft decision, the ERA removed $6.8 million of corporate - other corporate support costs from ATCO's base year.[6] ATCO did not accept the ERA's draft decision and in its revised proposal has included the full base year value for corporate - other corporate support costs.

63. The reduction to base year corporate – other corporate support costs in the draft decision of $6.8 million was made using mislabelled information from ATCO. ATCO identified that there were errors in the data submitted in response to an information request that resulted in a distortion of the costs incurred and expected within each category of such expenditure historically.[7]

64. This mislabelled information contributed the EMCa's calculation of an average historical cost of $1.6 million per year for the corporate - other corporate support costs category which led the ERA to determine the negative base year adjustment of $6.8 million.

65. In its revised proposal, ATCO provided correct information that the ERA has taken into account for this final decision. ATCO has also provided a report by Rennie Advisory, which provides further information on the components of corporate cost line items and clarifies aspects that were not clear in the information that ATCO provided to support its initial plan.

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[6] Other corporate support costs includes human resources, finance and risk.

[7] Information request EMCa52

66. EMCa notes that the average cost for corporate - other corporate support costs in AA4 is now $5.7 million per year instead of $1.6 million per year. The average for AA5 to date (including 2023 actuals) is $6.5 million, however, this figure includes STIP.

67. After removing STIP (which has been separately accounted for) the average corporate – other corporate support costs can now be more accurately compared with the 2023 base year. ATCO's average for AA4 is $4.23 million, and for AA5 to date an average of $3.89 million. This is compared to ATCO's 2023 actual costs of $3.99 million.

68. Using the correct information, that ATCO's 2023 base year corporate - other corporate support costs operating expenditure (excluding STIP) of $3.99 million is less than its average in AA4 and is $0.10 million more than its AA5 to date average. EMCa now considers that the expenditure is reasonable and that no adjustment for this line item is warranted.

69. The ERA has taken into account ATCO's revised proposal. The ERA acknowledges that reducing the corporate - other corporate support costs by $6.8 million in the draft decision inadvertently resulted in reducing STIP expenditure twice in the draft decision.

70. Taking into account the corrected average cost comparisons, the ERA considers that the proposed corporate - other corporate support~~s~~ costs of $3.99 million in the 2023 base year actuals is reasonable and no adjustment is required in the final decision.

Stakeholder engagement

71. In ATCO's initial proposal, $2.8 million in expenditure was described as corporate – stakeholder engagement. ATCO also described this as "business improvement costs".

72. In the draft decision, the ERA adjusted ATCO's business improvement costs by $1.0 million on the basis that these costs would be offset by cost reductions that the business improvement team achieves and as such would not form part of an efficient base year cost.

73. ATCO did not accept the ERA's draft decision adjustment, on the basis that the business improvement costs form part of an efficient and prudent cost base. In addition, ATCO noted that the business improvement costs were $0.67 million, not $1.0 million in 2023 as deducted by the ERA.

74. Between ATCO's initial and revised proposals, the naming of cost categories has changed, which has added to the confusion about stakeholder engagement costs. In the revised proposal, these costs are now referred to as "corporate – marketing and BD" (business development) with some small cost differences in historical costs for the new category compared to the previous name. ATCO's revised submission includes $2.9 million for corporate – marketing and BD for AA6.

75. EMCa notes that the new information provided regarding the smaller amount of $0.67 million means it now considers it is reasonable to accept that this component provides value to customers through facilitating the rollout of improvement projects across the business, which provide incremental cost and delivery efficiencies. However, EMCa notes that this still leaves $2.2 million ($2.9 million minus $0.67 million) in marketing and BD costs that ATCO has not adequately explained.

76. EMCa has previously reviewed ATCO's AA4 and AA5 operating expenditure and has consistently formed the view that ATCO has not justified inclusion of the levels of proposed marketing and BD expenditure.

77. The ERA has applied negative adjustments in the previous two access arrangements to ATCO's proposed expenditure in this area. EMCa sought additional information from ATCO to show outcomes from these past negative adjustments, but ATCO did not provide this.

78. EMCa has raised concerns in previous reviews about the validity of charging existing customers for ATCO's marketing, in particular with ATCO's marketing objective in the AA5 access arrangement submission being to address the declining gas consumption trend.

79. EMCa sought a breakdown of the 2023 marketing and BD operating expenditure. ATCO provided this breakdown, which included $0.09 million for blue flame kitchen expenditure, an item that was excluded in both AA4 and AA5 as not being prudent and efficient regulatory expenditure.

80. With the past expenditure of stakeholder engagement/marketing and BD being difficult to follow with name changes and changing of account structures, EMCa referred back to the AA5 decision when determining its summary for the cost category.

81. The ERA's final decision for AA5 determined that a prudent and efficient allowance for the period was $1.96 million (in 2019 dollars). EMCa considers that, having determined this as an efficient allowance for AA5 and without ATCO providing any justifying information for its revised proposal amount, EMCa consider that AA5 allowance continues to represent a reasonable allowance for AA6.

82. In current dollar terms (2023 dollars), the AA5 allowance is $2.31 million which is $0.56 million less than ATCO's 2023 disclosed expenditure for this cost category.

83. The ERA has reviewed the limited information provided by ATCO and attempted to reconcile the information based on the changes made between access arrangements and between the initial and revised proposals in this review. The ERA notes that ATCO has included in its base year blue flame kitchen expenditure that was determined in the AA5 period to be non-conforming expenditure.

84. The ERA considers that the approach of using the AA5 approved value, escalated into 2023 dollars, is a sensible approach for determining the AA6 forecast in the absence of any information to justify altering the value. As discussed, ATCO's information is predominately focused on the business improvement expenditure and the justification for that expenditure and information on the remaining proposed expenditure is limited.

85. As a result, the ERA has determined the efficient cost for stakeholder engagement (marketing and BD, inclusive of business improvement) is the AA5 determined value, escalated into 2023 dollars of $2.31 million.

86. Accordingly, the ERA has determined that $0.56 million in costs (the difference between 2023 actual costs and the ERA's determined efficient costs) relating to stakeholder engagement (marketing and BD) do not form part of an efficient base year's costs and are to be removed from ATCO's 2023 actual operating expenditure.

2023 Base year changes compared to 2022

87. Moving from the 2022 base year to 2023 in ATCO's revised proposal increased operating expenditure by $4.3 million.

Network

88. ATCO's network costs have increased by $4.4 million between 2022 to 2023. ATCO noted that the increase occurred in the following four areas:

- IT managed services ($2.4 million)
- Vacancies / constrained labour market ($1.6 million)
- Meter reads ($0.3 million)
- Insurance ($0.1 million).

89. ATCO notes that the increase in the IT managed services relates to increased cyber security to meet obligations under the *Security of Critical Infrastructure Act* (SOCI Act) and migrating to off-premises hosted infrastructure as opposed to replacing end of life assets.

90. EMCa notes that the cause of the increased operating expenditure is consistent with what it has observed across all gas and electricity network businesses.

91. ATCO submitted that the constrained labour market resulted in a high number of vacancies in 2022, which have been filled in 2023. EMCa notes that this is a reasonable explanation and it has seen similar observations from other gas and electricity networks around Australia.

92. ATCO noted that for meter reads, the labour shortages in 2022 resulted in lower reads but that in 2023 it has returned to its normal level of actual reads.

93. ATCO explained that its increase in insurance costs is due to general Australian market premium increases and also the increase in its underlying asset value.

Corporate

94. ATCO's actual corporate costs for 2023 were $1.1 million lower than its 2022 actual. ATCO noted that this was primarily due to a reduction in legal costs. ATCO also noted that it considers this to be a reasonable reflection of its ongoing requirements. EMCa reviewed the value of corporate costs against historical averages and agreed that the 2023 actual expenditure value is reasonable.

IT

95. ATCO's IT costs increased by $0.9 million between 2022 to 2023. ATCO notes that this increase is attributable to the filling of vacancies during the year as well as continuing IT cloud migration, cyber security enhancements and the data centre migration to off-premises. EMCa has noted that it has observed operating expenditure increases in other such businesses for similar reasons and considers the 2023 value is reasonable.

Summary

96. The ERA has reviewed ATCO's increase in operating expenditure between 2022 to 2023 and accepts ATCO's reasoning for the increase in expenditure between the years.

Base year adjustment summary

97. The ERA has accepted ATCO's proposal to use 2023 as its base year. The ERA considers that the most recent full year of actual costs is an appropriate selection on

which to base its forecast costs after taking out one-off and non-recurring costs in that year.

98. Taking ATCO's 2023 actual operating expenditure and removing the specific forecasts (UAFG and ancillary service costs) and the non-recurrent costs identified by ATCO and the additional non-recurrent costs identified by the ERA results in a 2023 efficient base year determined by the ERA of $65.3 million as shown in Table 5.2 below.

Table 5.2: Comparison of ATCO's and ERA's determined efficient base year operating expenditure for 2023 ($ million real at 31 December 2023)

	ATCO revised proposal	ERA final decision
ATCO 2023 actual operating expenditure	78.9	78.9
LESS: adjustments for non-recurrent operating expenditure		
• [redacted] costs	(4.3)	(4.3)
• Preparation of the AA6 submission	(1.7)	(1.7)
• Corporate restructuring	(0.1)	(0.1)
• Inline pipeline inspection program	(0.3)	(0.3)
• Clean energy innovation hub	(0.1)	(0.1)
• Other Corporate Support	0.0	0.0
• STIP	(0.9)	(1.4)
• Corporate costs	0.0	0.0
• Stakeholder engagement	0.0	(0.6)
2023 operating expenditure (excluding only non-recurrent costs)	**71.4**	**70.3**
LESS: UAFG	(3.0)	(3.0)
LESS: Ancillary services	(2.0)	(2.0)
Efficient base year operating expenditure	**66.4**	**65.3**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 126 and p. 156, and ERA analysis.

Step changes

99. In its revised proposal, ATCO proposed 19 step changes totalling $38.7 million, with 16 of the step changes being recurrent ($27.6 million), with the remaining three step changes being non-recurrent ($11.0 million).

100. The ERA has reviewed each of the recurrent and non-recurrent step changes below and has included $26.4 million for step changes during AA6. For the recurring step changes, the ERA accepted (in part or full) six of the 16 proposed, totalling $13.1 million. For the non-recurring step changes, the ERA accepted (in part or full) two of the three

proposed, totalling $9.7 million. In addition, the ERA has decided to include an additional non-recurrent step change for carbon reductions to the value of $3.7 million taking the total approved non-recurring step changes to $13.3 million.

Recurrent step changes

101. Table 5.3 shows ATCO's revised proposal recurrent step changes it has included in its forecast operating expenditure for AA6.

Table 5.3: ATCO revised proposal recurrent step changes for AA6 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Step changes						
Superannuation guarantee rate increase	0.3	0.4	0.4	0.4	0.4	**1.9**
Property, plant and equipment operating expenditure threshold increase	0.2	0.2	0.2	0.2	0.2	**0.9**
Gas inspection – safety changes	0.2	0.2	0.2	0.2	0.2	**1.0**
Enabling renewable gases	0.3	0.4	0.3	0.4	0.5	**1.7**
Cyber security	0.4	1.2	1.6	1.7	1.6	**6.6**
Enterprise Resource Planning replacement	0.0	0.0	0.0	2.1	2.1	**4.1**
Economic regulatory changes	0.2	0.2	0.2	0.2	0.2	**1.0**
Additional step changes in revised proposal						
Critical Infrastructure Act	0.3	0.3	0.3	0.3	0.3	**1.4**
Security of Supply – Pipeline Patrol	0.2	0.2	0.2	0.2	0.2	**0.8**
Control room fatigue management	0.3	0.3	0.3	0.3	0.3	**1.6**
Picarro leak survey technology	0.1	0.1	0.1	0.1	0.1	**0.5**
Payroll upgrade project	0.1	0.1	0.1	0.1	0.1	**0.5**
Technology lifecycle	0.5	0.7	0.5	0.6	0.6	**2.7**
Data enablement	0.0	0.0	0.3	0.3	0.3	**0.9**
Technology leasing	0.3	0.3	0.3	0.3	0.3	**1.5**
ESG reporting system	0.0	0.1	0.1	0.1	0.1	**0.5**
Total	**3.3**	**4.6**	**5.0**	**7.4**	**7.4**	**27.6**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 176, Table 8.36.

102. In its initial proposal ATCO proposed seven recurrent step changes. In its revised proposal ATCO included the seven initial proposal recurrent step changes as well as an additional nine new step changes.

103. Each of these step changes is discussed below.

Superannuation guarantee rate increase

104. Table 5.4 shows ATCO's revised proposal superannuation guarantee rate increase it has included in its forecast operating expenditure for AA6.

Table 5.4: ATCO AA6 revised proposal forecast recurrent superannuation guarantee rate increase operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Superannuation guarantee rate increase	0.3	0.4	0.4	0.4	0.4	**1.9**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 176, Table 8.36.

105. ATCO advised it is obligated to pass on the superannuation increase prescribed by the *Superannuation Guarantee (Administration) Act 1992 (Cth)*.

106. In the draft decision the ERA accepted ATCO's recurrent step change for the superannuation guarantee rate increase.

107. ATCO in its revised proposal agreed with the ERA's decision to accept the costs related to the step change. ATCO has in its revised proposal adjusted the step change forecast down from $2.6 million to $1.9 million.

108. The ERA determines that the superannuation guarantee rate increase operating expenditure step change of $1.9 million meets the criteria under rule 91 of the NGR.

Property, plant and equipment operating expenditure threshold increase

109. Table 5.5 shows ATCO's revised proposal recurrent step change property, plant and equipment operating expenditure threshold increase it has included in its forecast operating expenditure for AA6.

Table 5.5: ATCO AA6 revised proposal forecast recurrent property, plant and equipment operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Property, plant and equipment	0.2	0.2	0.2	0.2	0.2	**0.9**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 176, Table 8.36.

110. ATCO has proposed that from 1 January 2025 it will change its approach to capitalising low-value assets after a review of the capital expenditure process revealed that the policy threshold for capitalising assets had not been increased from $300 for several years. ATCO reviewed the number of low-value assets purchased annually to determine the associated administrative burden of purchasing, managing, and reporting these low-value assets.

111. In the draft decision, the ERA accepted ATCO's recurrent step change for the increase in the expenditure threshold for property, plant and equipment.

112. ATCO in its revised proposal agrees with the ERA's decision to accept the costs related to the step change.

113. The ERA determines that the property, plant and equipment threshold increase step change of $0.9 million meets the criteria under rule 91 of the NGR.

Gas inspection – safety changes

114. Table 5.6 shows ATCO's revised proposal recurrent step change gas inspection – safety changes it has included in its forecast operating expenditure for AA6.

Table 5.6: ATCO AA6 revised proposal forecast recurrent gas inspection safety changes operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Gas inspection team	0.2	0.2	0.2	0.2	0.2	**1.0**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 176, Table 8.36.

115. ATCO noted that in May 2023, the Department of Energy, Mines, Industry Regulation and Safety decided that to avoid actual or perceived conflicts of interest, ATCO gas inspectors must not operate as gas fitters for consumer gas installations or related gas fitting work from 1 January 2024. ATCO has outlined the steps it needs to take to comply with this new obligation, which arises under the *Gas Standards Act 1972*.

116. In the draft decision, the ERA accepted ATCO's recurrent step change for the gas inspection safety changes inspection team.

117. ATCO in its revised proposal agrees with the ERA's decision to accept the costs related to the step change.

118. The ERA determines that the gas inspection safety changes inspection team step change of $1.0 million meets the criteria under rule 91 of the NGR.

Enabling renewable gases

119. Table 5.7 shows ATCO's revised proposal recurrent enabling renewable gases operating expenditure it has included in its forecast operating expenditure for AA6.

Table 5.7: ATCO AA6 revised proposal forecast recurrent enabling renewable gases operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Operation and maintenance of one injection point			0.1	0.1	0.1	**0.3**
Renewable gas point regulatory obligations – UAFG			0.2			**0.2**
Purchase of ACCUs	0.2	0.4				**0.6**

	2025	2026	2027	2028	2029	AA6 total
Renewable gas injection point - UAFG	**0.2**	**0.4**	**0.3**	**0.1**	**0.1**	**1.1**
Operation and maintenance of two injection points				0.1	0.2	
Renewable gas point regulatory obligations – Customer				0.2	0.2	
Renewable gas injection point – Customer access				**0.3**	**0.4**	**0.6**
Total	**0.2**	**0.4**	**0.3**	**0.4**	**0.5**	**1.7**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 160, Table 8.19.

120. In the draft decision, the ERA determined that ATCO's proposal of $7.3 million for enabling renewable gases did not satisfy the operating expenditure criteria for inclusion as AA6 operating expenditure. This was because the ERA did not accept the associated enabling renewable gases capital expenditure resulting in the operating expenditure no longer being required.

121. In its revised proposal, ATCO has again proposed AA6 expenditure for enabling renewable gases, however, on a smaller scale of $1.7 million for the AA6 period.

122. ATCO notes that its $1.7 million is to enable the injection of renewable gases into the network to meet its emission reduction targets. ATCO notes that the expenditure covers the operational and maintenance costs associated with the new injection points, regulatory obligations such as Safety Case amendments and the purchase of Australian Carbon Credit Units (ACCUs).

123. As noted in the ERA's draft decision, there is currently no regulatory obligation for undertaking the associated capital expenditure projects linked with this operating expenditure.

124. As set out in Attachment 4 – regulatory capital base, the ERA has not approved the capital expenditure relating to ATCO's enabling renewable gases. As a result, the associated operating expenditure linked to the capital expenditure projects in this proposed step change is not required. As part of its enabling renewable gases proposal, ATCO has included the purchase of ACCUs. The ERA addresses the purchase of ACCUs in the carbon reduction section of this attachment below (see non-recurring step changes).

125. As a result, the ERA has determined that the proposed recurrent step change expenditure of $1.7 million for the enabling renewable gases projects does not satisfy the operating expenditure criteria of rule 91 of the NGR for inclusion in the AA6 operating expenditure proposal.

Cyber security

126. Table 5.8 shows ATCO's revised proposal recurrent step change cyber security expenditure it has included in its forecast operating expenditure for AA6.

Table 5.8: ATCO AA6 revised proposal forecast recurrent cyber security operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Labour	0.4	0.8	0.8	0.8	0.8	**3.6**
Subscription fee	0.0	0.4	0.8	0.9	0.8	**3.0**
Total	**0.5**	**1.2**	**1.6**	**1.7**	**1.6**	**6.6**

Source: ATCO, 2025-29 revised Plan (Access Arrangement Information), 10 June 2024, p. 161, Table 8.20.

127. ATCO noted that its cyber security strategy is designed to protect critical Information Technology and Operational Technology systems and data, ensure regulatory compliance, and enhance its overall cyber security. ATCO stated that its investment in cyber security is aimed at continuing to implement a combination of polices, processes, and technologies to cost-effectively achieve and maintain an acceptable level of loss exposure or an optimal risk position.

128. In the draft decision, the ERA reduced ATCO's proposed cyber security step change from a proposed value of $4.5 million to zero, due to lack of justification.

129. ATCO has reassessed its approach to its cyber security program for its revised proposal and has increased its operating expenditure step change to $6.6 million.

130. ATCO's revised proposal includes the cost of an Australian-based Security Operations Centre (SOC) together with the annual licencing and support fees for cyber security specific tools.

131. EMCa was supportive of ATCO's preferred option of creating an Australian based SOC, including personnel to build the onshore SOC. EMCa asked ATCO questions about the costs, including any deductions to the Canadian head office fees or any offsets from the Canadian equivalent of the SOC. ATCO advised that it valued the displaced cyber-security service from the Canadian equivalent SOC as [redacted] per year.

132. ATCO also indicated that [redacted] was included in the base year as a Canada head office fee for Cyber security (for cyber security assurance and cyber security risk services) from the Canadian SOC and attributed to ATCO.

133. EMCa noted that there may be some value to the Australian SOC from the Canadian head office for cyber security governance as described by ATCO in its revised proposal. However, the Canadian head office fee proposed by ATCO remains unchanged following the establishment of the Australian SOC, which EMCa does not consider reasonable.

134. In its revised proposal, ATCO has justified the requirement for cyber security expenditure, however, the unchanged Canada head office fees for cyber security despite the creation of an Australian based SOC is not justifiable. While the ERA considers that some costs associated with the Canadian head office cyber costs may be reasonable, in the absence of additional information from ATCO, the ERA has determined a reduction of [redacted] of the [redacted] Canada head office annual fee, resulting in an overall reduction of $0.7 million for AA6.

135. As a result, the ERA determines that $0.7 million of ATCO's $6.6 million step change for cyber security does not meet the criteria under rule 91 of the NGR. The ERA

determines that a step change for cyber security operating expenditure of $5.9 million meets the criteria under rule 91 of the NGR.

Enterprise Resource Planning (ERP) replacement

136. Table 5.9 shows ATCO's revised proposal recurrent step change ERP replacement expenditure it has included in its forecast operating expenditure for AA6.

Table 5.9: ATCO AA6 revised proposal forecast recurrent ERP replacement operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Enterprise Resource Planning replacement	0.0	0.0	0.0	2.1	2.1	**4.1**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 164, Table 8.23.

137. In its initial proposal, ATCO proposed expenditure of $4.1 million for the net increase in its annual licencing fees as a result of replacing its current ERP program. In its draft decision, the ERA approved expenditure of $0.6 million for additional licensing fee expenditure scheduled to be incurred from 2027 onwards.

138. ATCO did not accept the ERA's draft decision and has again proposed $4.1 million in recurrent step change operating expenditure for the ERP replacement.

139. EMCa supported the intent and scope of the project, however, in its revised proposal, ATCO did not quantify what appears to be significant benefits from replacing the existing ERP. EMCa noted that ATCO identifies 15 benefits associated with its chosen option, many of which are described as delivering financial benefits to ATCO. However, ATCO did not quantify nor recognise as offsets to the step change for these benefits nor did it disclose any other means of passing the tangible financial benefits back to customers.

140. EMCa considered that, in the absence of an offsetting benefit provided by ATCO or recognition of the ERP operating expenditure replacing operating expenditure for the system(s) that this will replace, a reasonable view is that the step change is not required.

141. As set out in Attachment 4 – regulatory capital base, the ERA has approved the capital expenditure for ATCO's proposed option minus contingency allowances.

142. ATCO has provided sufficient information to the ERA to approve the capital expenditure for the project but has not provided sufficient information to justify the associated operating expenditure. ATCO has proposed 15 benefits from undertaking this project, however, none of these benefits have been quantified financially and used to offset the operating expenditure proposed.

143. As a result, the ERA has determined that the proposed step change expenditure of $4.1 million for the ERP replacement does not satisfy the operating expenditure criteria for inclusion in the AA6 operating expenditure proposal.

Economic regulatory changes

144. Table 5.10 shows ATCO's revised proposal step change for recurrent economic regulatory changes expenditure included in its forecast operating expenditure for AA6.

Table 5.10: ATCO AA6 revised proposal forecast recurrent economic regulatory changes operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Regulatory obligations	0.1	0.1	0.1	0.1	0.1	**0.7**
ERA standing charges increase	0.1	0.1	0.1	0.1	0.1	**0.3**
Total	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**1.0**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 164, Table 8.22.

145. In the draft decision the ERA removed ATCO's proposed expenditure for economic regulatory changes reducing ATCO's proposal of $2.0 million down to zero. ATCO's operating expenditure step change was for two additional full-time employees (FTEs) in 2025 and 2026 and dropping down to one FTE from 2027 to 2029 inclusive to implement and manage the new obligations.

146. In response to the draft decision, ATCO amended its step change from $2.0 million down to $1.0 million. ATCO's revised proposal of $1.0 million is made up of one additional FTE ($0.6 million) and $0.3 million for a forecast increase in the standing fees paid to the ERA under the funding regulations.

147. In its initial proposal, ATCO expected the regulatory framework changes to be implemented in Western Australia during 2024. In its revised proposal, ATCO expects the reforms to be implemented prior to, or shortly after, the ERA makes this final decision and at least prior to the commencement of AA6. The ERA notes that AA6 is scheduled to start 1 January 2025 and at present there is no certain timeline for implementation of the regulatory changes.

148. As the ERA determined in the draft decision, as the changes to the NGL and NGR have not been implemented in Western Australia and there is no set timeline for them to be implemented, ATCO has not demonstrated the regulatory obligation to justify the step change.

149. Even in the event the regulatory framework is amended, there is no guarantee that the framework will be amended in line with the changes implemented in other jurisdictions, on which ATCO's proposal is based. As a result, the ERA determines that the $1.0 million for economic regulatory changes operating expenditure proposed by ATCO does not meet the criteria under rule 91 of the NGR.

Critical infrastructure act

150. Table 5.11 shows ATCO's revised proposal recurrent step change for Critical Infrastructure Act expenditure it has included in its forecast operating expenditure for AA6.

Table 5.11: ATCO AA6 revised proposal forecast recurrent Critical Infrastructure Act operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
FTEs	2	2	2	2	2	
Expenditure	0.3	0.3	0.3	0.3	0.3	1.4
Total	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**1.4**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 164, Table 8.26.

151. The recurrent step change for Critical Infrastructure Act expenditure is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $1.4 million as a result of changes to the SOCI Act. ATCO claims to have enhanced obligations regarding personnel, supply chain and physical security of IT critical assets and proposes two additional FTEs to manage the CIRMP and associated functions.

152. EMCa noted that, based on the information provided, it did not foresee the role requiring additional FTEs over the period. The main work to establish the Critical Infrastructure Risk Management Program (CIRMP) and support it has largely taken place within the AA5 period.

153. EMCa is of the view that once established, the ongoing effort within the personnel, supply chain and physical security areas is unlikely to be demanding with respect to changing or monitoring procurement, recruitment, and the Safety Case processes. EMCa considers that once new or modified processes are established (that is, in the current access arrangement period) the ATCO workforce, which is in the order of 400 personnel, will absorb these into their routine work processes, assisted by the additional personnel allowed under the cyber security program and the associated security-related capital investment ATCO is making. As a result, EMCa considers that ATCO has not justified the need for this step change.

154. ATCO acknowledges that its CIRMP and supporting documents will be established before the start of AA6. The ERA considers that as submitted by EMCa, once established the work required is unlikely to be demanding and the additional personnel ATCO is engaging for the cyber security and security-related capital investment should be sufficient along with the existing workforce to undertake any additional work that may be required.

155. Based on the information available, the ERA has determined that for the critical infrastructure act step change, $1.4 million expenditure proposed by ATCO does not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Security of supply – Pipeline patrol

156. Table 5.12 shows ATCO's revised proposal step change for recurrent security of supply – pipeline patrol expenditure it has included in its forecast operating expenditure for AA6.

Table 5.12: ATCO AA6 revised proposal forecast recurrent security of supply – pipeline patrol operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
FTEs	1.5	1.5	1.5	1.5	1.5	
Expenditure	0.16	0.16	0.16	0.16	0.16	0.8
Total	**0.16**	**0.16**	**0.16**	**0.16**	**0.16**	**0.8**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 170 Table 8.27.

157. The recurrent step change for security of supply pipeline patrol is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $0.8 million in AA6 for the additional pipeline patrols.

158. ATCO completed an assessment which reconfirmed the existing three sections of the high pressure network and identified three more high pressure pipelines that should be patrolled daily. ATCO currently conducts daily patrols on the existing three pipelines to reduce the risk of third-party damage.

159. ATCO proposed to allocate an additional 1.5 FTE to conduct daily patrols on the three additional pipelines. The proposal aims to provide adequate backup personnel to cover absences as well.

160. EMCa did not see in ATCO's information that an extra 0.5 FTE for redundancy is required. EMCa did not consider that a step change is required for a notional 0.25 per cent increase in staff.

161. EMCa considered that this can be covered by other offsetting efficiencies throughout the business that are referred to throughout the revised plan and accompanying business cases. In addition, EMCa notes that since this patrol issue arises from growth in customer numbers on these pipelines, the small amount of additional cost is implicitly covered by the customer growth trend factor in its base-step-trend derivation.

162. The ERA has considered ATCO's proposal and EMCa's analysis and does not see justification for the redundancy back up portion of the step change and agrees with EMCa that as the requirement for these additional patrols has come from customer growth, the trend growth allowance and efficiencies achieved in AA6 would account for the step change allowance.

163. Based on the information available, the ERA has determined that for the security of supply pipeline patrol, $0.8 million ATCO proposed as expenditure does not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Control room fatigue management

164. Table 5.13 shows ATCO's revised proposal recurrent step change control room fatigue management expenditure it has included in its forecast operating expenditure for AA6.

Table 5.13: ATCO AA6 revised proposal forecast recurrent control room fatigue management operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
FTEs	4	4	4	4	4	
Expenditure	0.3	0.3	0.3	0.3	0.3	1.6
Total	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**1.6**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 171, Table 8.28.

165. The recurrent step change for control room fatigue management is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $1.6 million in AA6 for the control room fatigue management for the addition of four FTEs.

166. EMCa sought additional information around the requirement for the additional employees, which came about from a Department of Energy, Mines, Industry Regulation and Safety WorkSafe Improvement Notice.

167. ATCO has subsequently advised that since the revised submission and following discussions with the department, that ATCO no longer requires the step change.

168. As a result, the ERA has determined that for the control room fatigue management, $1.6 million that ATCO proposed as expenditure does not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Picarro leak survey technology

169. Table 5.14 shows ATCO's revised proposal recurrent step change Picarro leak survey expenditure it has included in its forecast operating expenditure for AA6.

Table 5.14: ATCO AA6 revised proposal forecast recurrent Picarro leak survey technology operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Operations and maintenance expenditure	0.1	0.1	0.1	0.1	0.1	0.5

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 172, Table 8.29.

170. The recurrent step change for Picarro leak survey technology is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $0.5 million in AA6 for the operation and maintenance of the Picarro leak survey technology.

171. ATCO expects to realise cost savings and states that the technology aligns to good industry practice to replace the traditional walking of the mains to detect leaks.

172. EMCa noted that ATCO's business case provides compelling information about the benefit of adopting the technology and that the cost is based on vendor quotes and does not include contingency. However, ATCO's proposal does not offer an estimate of the quantitative benefit, which would offset the ongoing cost.

173. EMCa sought additional information for an estimate of the cost savings from deploying the technology. ATCO identified annual avoided operating expenditure of $1.0 million a year from when the technology is fully implemented by 2026.

174. As a result, EMCa considers that no step change is required and that the balance of any further efficiency gain can be used to offset other step changes that EMCa recommend should be adjusted to zero in the step change section.

175. With the additional information provided by ATCO on the operating expenditure savings, the ERA considers that an increase in operating expenditure of $0.5 million for AA6 is not justified. The ERA also notes EMCa's observation that ATCO would avoid $3.5 million in operating expenditure ($4.0 million minus the $0.5 million in Picarro leak survey technology operations and maintenance expenditure for AA6).

176. As a result, the ERA has determined that for the Picarro leak survey technology, $0.5 million expenditure proposed by ATCO does not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Payroll upgrade project

177. Table 5.15 shows ATCO's revised proposal step change for recurrent payroll upgrade project expenditure it has included in its forecast operating expenditure for AA6.

Table 5.15: ATCO AA6 revised proposal forecast recurrent payroll upgrade project operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Annual licencing and support fees	0.1	0.1	0.1	0.1	0.1	0.5

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 164, Table 8.22.

178. The recurrent step change for the payroll upgrade project is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $0.5 million in AA6 for the annual licensing and support fees for the upgraded payroll system from 2025 onwards.

179. EMCa was generally supportive of the intent, scope and timing of the project, however, ATCO has not attempted to quantify the benefits that will accrue to it after implementing the project, noting in the project brief, multiple benefits are claimed, such as reduced administrative burden.

180. Although ATCO has not provided an estimate of the value of these benefits, EMCa considers it more than likely from ATCO's description that they would exceed the $0.1 million per year that ATCO is seeking as a step change, or that the $0.1 million per year it is proposing would not be additional to operations costs for its existing payroll system.

181. ATCO has identified that there will be benefits accruing from the payroll upgrade but has not attempted to quantify the benefits. The ERA considers that, based on technical advice, the cost savings arising from the payroll upgrade would be sufficient to cover the $0.1 million per year either alone or in combination with the operations costs for the existing payroll system.

182. As a result, the ERA has determined that for the payroll upgrade project, $0.5 million that ATCO proposed as expenditure does not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Technology lifecycle program

183. Table 5.16 shows ATCO's revised proposal step change for recurrent technology lifecycle program expenditure it has included in its forecast operating expenditure for AA6.

Table 5.16: ATCO AA6 revised proposal forecast recurrent technology lifecycle program operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Licencing and support fees	0.5	0.7	0.5	0.6	0.6	2.7

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 173, Table 8.31.

184. The recurrent step change for the technology lifecycle program is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $2.7 million for the technology lifecycle program and notes that the expenditure includes the cost of annual licencing and support fees of the technology assets requiring change or uplifts.

185. EMCa noted that the information on the operating expenditure for the technology lifecycle program was lacking and requested additional information from ATCO. ATCO provided a list of the drivers and the operating expenditure for 25 proposed initiatives and the associated projects required to deliver each initiative. EMCa considers the estimates are clearly approximations in most cases, however, that is not unreasonable at this stage of the project lifecycle.

186. ATCO also advised that there would be savings from reduced licensing and support fees of $0.9 million over the AA6 period. EMCa notes that there is no indication in the response from ATCO, or in ATCO's revised plan or its business case that this amount has been accounted for in it proposed step change.

187. The ERA has accepted the associated capital expenditure for the technology lifecycle program in Attachment 4 (minus a contingency amount). The ERA considers the associated operating expenditure is required as a result of the capital expenditure.

188. The ERA considers that the $0.9 million in savings from the reduced licensing and support fees should be offset against the $2.7 million in operating expenditure required for the technology lifecycle program.

189. As a result, the ERA determines that $0.9 million of the step change for technology lifecycle program operating expenditure proposed by ATCO does not meet the criteria under rule 91 of the NGR. The ERA determines that the step change for technology lifecycle program operating expenditure of $1.8 million meets the criteria under rule 91 of the NGR.

Data enablement

190. Table 5.17 shows ATCO's revised proposal recurrent data enablement expenditure it has included in its forecast operating expenditure for AA6.

Table 5.17: ATCO AA6 revised proposal forecast recurrent data enablement operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Licensing and support fees	0.0	0.0	0.0	0.0	0.0	**0.1**
Labour	0.0	0.0	0.3	0.3	0.3	0.8
Total	**0.0**	**0.0**	**0.3**	**0.3**	**0.3**	**0.9**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 173, Table 8.32.

191. The recurrent step change for the data enablement program is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $0.9 million for the data enablement program and notes that the expenditure includes the cost of annual licencing and support fees of technologies to deliver and maintain data management capabilities.

192. ATCO's expenditure is for licensing and support fees ($0.1 million) and for the engagement of a new data architect from 2027 onwards ($0.8 million).

193. EMCa considers that ATCO's proposed project is prudent and the engagement of a data architect resource is justified. However, EMCa noted that as with many other business cases, ATCO does not recognise the productivity improvement that it claims will accrue from the project by reducing the current burden of manual data cleansing and validation.

194. EMCa notes that based on ATCO's analysis of the "do nothing different" option, this reveals an estimated $6.2 million savings over five years from avoided manual interventions. EMCa considers that the additional cost of the data architect will be more than offset by this productivity improvement.

195. The ERA considers that costs savings and avoided operating expenditure needs to be taken into account when assessing the efficiency of proposed operating expenditure. EMCa notes that overall for the project there are significant cost savings that are claimed to be possible and need to be used to offset the increase in operating expenditure.

196. As a result, the ERA has determined that for the data enablement program, $0.9 million that ATCO proposed as expenditure does not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Technology leasing

197. Table 5.18 shows ATCO's revised proposal recurrent technology leasing expenditure it has included in its forecast operating expenditure for AA6.

Table 5.18: ATCO AA6 revised proposal forecast recurrent technology leasing operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Technology leasing	0.3	0.3	0.3	0.3	0.3	**1.5**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 175, Table 8.34.

198. The recurrent step change for the technology leasing is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $1.5 million for the technology leasing of 317 items of IT hardware that ATCO intends to transition from a purchase model to a leasing model.

199. EMCa has reviewed the net present value analysis provided by ATCO which demonstrates over five years that the operating expenditure versus capital expenditure outlay over the AA6 period is 17 per cent ($0.3 million) less in favour of leasing.

200. EMCa considers that with the assumed unit costs, this is a legitimate and cost-effective operating expenditure – capital expenditure trade-off and EMCa is satisfied that the step change is warranted.

201. The ERA considers that ATCO has provided sufficient information to justify the recurrent step change for technology leasing. As a result, the ERA determines that the step change for technology leasing operating expenditure of $1.5 million meets the criteria under rule 91 of the NGR.

Environmental, Social and Governance (ESG) reporting system

202. Table 5.19 shows ATCO's revised proposal recurrent ESG reporting system expenditure it has included in its forecast operating expenditure for AA6.

Table 5.19: ATCO AA6 revised proposal forecast recurrent ESG reporting system operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
ESG reporting system – licensing fee	0.0	0.1	0.1	0.1	0.1	**0.5**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 175, Table 8.35.

203. The recurrent step change for the ESG reporting system is a new step change in ATCO's revised proposal. ATCO forecasts it will incur $0.5 million for the ESG reporting system which ATCO notes will support ATCO's reporting obligations. The system will monitor, measure and report on sustainability performance.

204. EMCa noted that ATCO's proposal will replace a cumbersome manual system with a digital platform "offering speed, efficiency, and scalability." EMCa suggested the capital expenditure for the ESG reporting system be accepted on the basis of the claimed benefits. However, again ATCO has not attempted to quantify the efficiency benefits that it refers to and which EMCa considers would be (i) material, (ii) an offset to the proposed step change, and (iii) part of the rationale for accepting the proposed operating expenditure.

205. As with other step changes assessed, the ERA considers that cost savings and avoided operating expenditure needs to be taken into account when assessing the efficiency of proposed operating expenditure. EMCa notes that, overall, for the project there are cost savings that are claimed to be possible and need to be used to offset the increase in operating expenditure.

206. As a result, the ERA has determined that for the ESG reporting system, $0.5 million that ATCO proposed as expenditure does not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Recurrent step change adjustment summary

Table 5.20: Comparison of ATCO's and ERA's determined recurrent step change operating expenditure for AA6 ($ million real at 31 December 2023)

	ATCO revised proposal	ERA final decision
Superannuation guarantee rate increase	1.9	1.9
Property Plant and Equipment threshold increase	0.9	0.9
Gas inspection – safety changes	1.0	1.0
Enabling renewable gases	1.7	0.0
Cyber security	6.6	5.9
Economic regulatory changes	1.0	0.0
Enterprise Resource Planning replacement	4.1	0.0
Critical Infrastructure Act	1.4	0.0
Security of Supply – Pipeline Patrol	0.8	0.0
Control room fatigue management	1.6	0.0
Picarro leak survey technology	0.5	0.0
Payroll upgrade project	0.5	0.0
Technology lifecycle	2.7	1.8
Data enablement	0.9	0.0
Technology leasing	1.5	1.5
ESG reporting system	0.5	0.0
Total	**27.6**	**13.1**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 176, and ERA analysis.

Non-recurrent step changes

207. Table 5.21 shows ATCO's revised proposal non-recurrent step changes it has included in its forecast operating expenditure for AA6.

Table 5.21: ATCO revised proposal non-recurrent step changes for AA6 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Pipeline inline inspections	0.1	0.7	1.0	1.6	1.0	4.5
Access arrangement 7 and Rate of Return Instrument regulatory preparation	0.0	0.2	1.0	3.0	1.8	6.0

	2025	2026	2027	2028	2029	AA6 total
Software as a service (SaaS) arrangement	0.0	0.0	0.0	0.0	0.0	0.0
Managed IT services tender renewal	0.2	0.3	0.0	0.0	0.0	0.5
Total	0.3	1.2	2.1	4.6	2.8	**11.0**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 180, Table 8.40.

Pipeline inline inspections

208. Table 5.22 shows ATCO's revised proposal for pipeline inline inspections expenditure it has included in its forecast operating expenditure for AA6.

Table 5.22: ATCO AA6 revised forecast pipeline inline inspections operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Inline inspection	0.0	0.5	1.0	1.6	1.0	4.2
Direct inspection	0.1	0.2	0.0	0.0	0.0	0.3
Total	**0.1**	**0.7**	**1.0**	**1.6**	**1.0**	**4.5**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 180, Table 8.39.

209. In the draft decision, the ERA reduced the pipeline inline inspections forecast operating expenditure by $2.1 million as a result of not allowing the associated capital expenditure.

210. Following the ERA's draft decision, ATCO conducted a feasibility assessment and modified the inspection strategy for three pipelines in Bunbury, resulting in a reduction of $2.1 million. ATCO has noted that it will instead increase the number of direct inspections to gather the necessary pipeline integrity data to comply with Australian Standards.

211. ATCO's increase in direct inspections results in an increase of $0.3 million to the pipeline inspections expenditure for AA5.

212. EMCa reviewed ATCO's proposal and change in strategy from inline inspections to direct inspections for the three Bunbury pipelines and considers the forecast expenditure for the step change to be justified.

213. The ERA considers ATCO's change in strategy to be a sensible approach as ATCO would require significant capital expenditure to undertake the inline inspections and the cost would outweigh the benefits.

214. The ERA has determined $4.5 million for the step change for inline inspections meets the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Access arrangement 7 and rate of return instrument regulatory preparation

215. Table 5.23 shows ATCO's revised proposal economic regulatory changes expenditure it has included in its forecast operating expenditure for AA6.

Table 5.23: ATCO AA6 revised proposal forecast AA7 and rate of return instrument regulatory preparation operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Rate of return instrument review costs	0.0	0.2	0.0	0.0	0.0	0.2
AA7 preparation costs	0.0	0.0	1.0	3.0	1.8	5.8
Total	**0.0**	**0.2**	**1.0**	**3.0**	**1.8**	**6.0**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 178, Table 8.37.

216. In the draft decision, the ERA adjusted ATCO's proposed expenditure downwards by $0.9 million to $5.2 million for AA7 and rate of return instrument regulatory preparation costs to be incurred in the AA6 period. The ERA considered ATCO had not justified the proposed increase between the estimated costs in the AA5 period to the forecast AA6 period costs.

217. ATCO's revised proposal has included a forecast of $6.0 million for the AA7 and rate of return instrument regulatory preparation costs to be incurred in the AA6 period. Since the initial proposal ATCO has updated the 2023 expenditure to actual costs.

218. ATCO noted the additional consulting costs that the ERA has incurred for the AA6 review, compared to AA5. These costs are passed directly to ATCO through relevant funding legislation. The ERA has engaged additional consultants for AA6, compared to AA5 decisions, and costs have increased for the engagement of specialist technical consultants however other consultant costs usually incurred by the ERA have been performed internally by the ERA for AA6, keeping overall costs to a minimal increase.

219. ATCO submitted that throughout the AA6 submission process, it has been under-resourced, which has led to at times insufficient information being provided and has hindered its ability to adequately address the complex and extensive regulatory requirements.

220. The ERA notes that despite a higher number of information requests being made during this review than in previous access arrangements the majority of information requests, have been fulfilled on time and with sufficient information with only a small number requiring additional follow up requests.

221. The ERA considers that ATCO has not justified the proposed increase between access arrangements for its non-recurrent step change for the AA7 and rate of return instrument regulatory reviews.

222. The ERA has maintained its draft decision position and determined that a reduction of $0.8 million is required to ATCO's forecast AA7 and RORI regulatory preparation costs as these costs do not meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6.

223. The ERA has determined that $5.2 million for the step change for the AA7 and rate of return instrument regulatory reviews does meet the criteria under rule 91 of the NGR to be included as operating expenditure for the AA6 period.

Software as a service arrangement

224. In the draft decision, the ERA determined that any efficient expenditure for the Software as a Service (SaaS) arrangement would be included as capital expenditure rather than operating expenditure.

225. ATCO has accepted the ERA's decision to classify the SaaS arrangement as capital expenditure in its revised proposal.

Managed IT services tender renewal

226. Table 5.24 shows ATCO's revised proposal managed IT services tender renewal expenditure it has included in its forecast operating expenditure for AA6.

Table 5.24: ATCO AA6 forecast managed IT services tender renewal operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Managed IT services tender renewal	0.2	0.3	0.0	0.0	0.0	0.5

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 179, Table 8.38.

227. ATCO has proposed, as it did in its initial proposal, a $0.5 million operating expenditure step change to renew the tender for IT managed services before the expiry of the current contract in August 2026.

228. ATCO's managed IT services contract is periodically reviewed and is not a routine activity. ATCO states that, given the highly complex nature of IT services delivery, it requires specialist external expertise to ensure that the tender for the upcoming renewal achieves the required outcomes from the contract negotiation process. The current contract contains eight schedules and consists of over 70 discrete IT services.

229. EMCa noted that while ATCO argues that this is not a routine activity, it also states that the contract is periodically reviewed. The ERA has looked back at a number of previous decisions and can see no mention or inclusion of expenditure for an IT managed services review, suggesting that the costs of the periodic reviews done in the past have been covered by the existing operating expenditure allowance.

230. EMCa was satisfied with the new information confirming that specialist expertise is reasonably required to support ATCO to select the appropriate services. However, it is not a new requirement and for an organisation of ATCO's size, EMCa did not see the justification for the step change, which is a small amount in an operating budget of more than $400 million over the AA6 period.

231. The ERA has reviewed ATCO's revised proposal and maintains its draft decision position that the proposed expenditure is not reflective of an additional cost that is imposed by the introduction of a new regulatory obligation or an efficient capital expenditure/operating expenditure trade off.

232. ATCO has discretion in its prioritisation and allocation of expenditure for advice such as proposed for this step change.

233. As a result, the ERA considers that ATCO has not demonstrated the regulatory obligation to justify the step change. As a result, the ERA determines that the $0.5 million for managed IT services tender renewal operating expenditure proposed by ATCO does not meet the criteria under rule 91 of the NGR.

Carbon reduction

234. As noted above in the recurrent step change section, the ERA has not accepted ATCO's proposed enabling renewable gases operating expenditure. ATCO's proposal included the injection of biomethane into the network to be used as part of ATCO's UAFG requirement. Injecting biomethane would have also had the benefit of contributing to ATCO's sustainability strategy of reducing carbon emissions. The ERA has rejected the injection of biomethane as the legislation is not yet in place in Western Australia to allow this to be undertaken.

235. The ERA has included carbon reduction as a non-recurring step change in AA6. While the ERA considers carbon reduction an on-going commitment, the ERA considers that carbon reduction initiatives should be reviewed again at the next access arrangement period to review efficient solutions.

236. ATCO's proposal was for the biomethane injection to begin in 2027. For the first two years of the AA6 period, ATCO proposed to purchase ACCUs as a way to offset its carbon emissions until the biomethane injection was in place.

237. The ERA notes, as did some stakeholders, that ATCO is not subject to the Federal Government's Safeguard Mechanism and as such it is not under any legislative requirement to reduce its carbon emissions. ATCO has voluntarily adopted a carbon reduction strategy to reduce its carbon emissions.

238. The ERA acknowledges the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions. Many businesses are taking voluntary steps to address their carbon emissions, with ATCO's enabling renewable gases program being one such example. Western Australia's regulatory framework has been amended to include an emissions reduction objective in the National Gas Objective, and the NGR has been updated to include conforming capital or operating expenditure to achieve this objective.

239. Alinta Energy noted that ATCO has justified some support for reducing carbon emissions through the purchase of ACCUs to ensure that ATCO has improved access to investors and financiers and Alinta was concerned that customers would not receive this benefit. The ERA considers the issue is more about ATCO maintaining access to funding rather than receiving a lower return.

240. TRAC Partners, commissioned by the WA Expert Consumer Panel, considered that cost of living pressures for consumers was a reason for not supporting carbon reduction initiatives. TRAC Partners also noted that the AER has not allowed a gas service provider to include the purchase of ACCUs in its access arrangement review.

241. The ERA is acutely aware of the cost pressures across the community. ATCO's purchase of ACCUs would cost around $3.7 million over the five year AA6 period or around a $1 a year per gas customer.

242. The ERA has reviewed ATCO's targets to reduce emissions over AA6 and considers that a prudent service provider, while not legally required to reduce emissions, would still make efforts to reduce or offset its emissions. The ERA considers that ATCO's plan to abate emissions, as shown in Table 5.25, is relatively similar to its annual decrease

obligation if its emission level was above the Commonwealth safeguard mechanism threshold.

Table 5.25: ATCO proposed emissions abatement from purchase of ACCU's ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029
Number of ACCU's required to achieve ATCO's emission reduction targets	7,357	11,467	14,630	18,082	20,443

Source: ATCO, Revised Plan, 2025-29, Attachment 07.105.00 – Renewable Fuels – Gate Station – UAFG, p. 31

243. ATCO has provided a cost estimate of $3.7 million in total for an option to purchase ACCUs for each year of AA6, which ATCO has included in its enabling renewable gases business case.[8] The ERA has reviewed this estimate and considers that the cost estimate is reasonable to pay for offsetting of the level of emissions proposed. The assumed ACCU price is based on a Ministerial Council of Energy statement on the trajectory of these prices over the period, which was used to determine a value of emissions reduction. The ERA notes that the ACCU price used to determine the carbon reduction non-recurrent operating expenditure is outweighed by the benefits assumed by the value of emissions reduction determined under the Ministerial Council of Energy statement.

244. Given the consideration above, the ERA has determined annual carbon reduction non-recurrent operating expenditure which has been included in the forecast operating expenditure for AA6 as set out in Table 5.26.

Table 5.26: ERA determined carbon reduction non-recurrent step change operating expenditure ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Purchase of ACCU's	0.3	0.5	0.7	1.0	1.2	3.7

Source: ERA analysis.

245. The ERA requires ATCO to provide an annual update on ATCO's carbon emissions reduction performance and the expenditure it has incurred to achieve its own reduction targets as shown in Table 5.25.[9]

Non-recurrent step change adjustment summary

246. For non-recurrent step changes, the ERA has determined a value of $13.4 million for the AA6 period as set out below in Table 5.27.

8 ATCO, Revised Plan, 2025-29, Attachment 07.105.00 – Renewable Fuels – Gate Station – UAFG. The costs were provided in 2022 dollars which the ERA escalated into 2023 dollars.

9 Reporting format to be determined between the ERA and ATCO as part of the Regulatory Information Notice review in 2025.

Table 5.27: Comparison of ATCO's and ERA's final decision non-recurrent step change operating expenditure for AA6 ($ million real at 31 December 2023)

	ATCO revised proposal	ERA final decision
Pipeline inline inspections	4.5	4.5
Access Arrangement 7 regulatory preparation and RORI review	6.0	5.2
Software as a Service (SaaS) arrangements	0.0	0.0
IT Managed services	0.5	0.0
Carbon reduction	0.0	3.7
Total	**11.0**	**13.3**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 180 and ERA analysis

Output growth escalation

247. The ERA considers, as it did in the draft decision, that it is reasonable to include an output growth escalation factor in ATCO's operating expenditure forecast to account for fluctuations in the scale of ATCO's operations.

248. In its initial proposal, ATCO considered that the output growth for operating expenditure should include expected growth in both customer numbers and in the physical size (measured in kilometres of mains) of the distribution network. The weighting proposed by ATCO was 55 per cent for customer numbers and 45 per cent for kilometres of mains. The ERA accepted these weightings in the draft decision and ATCO used these weightings in its revised proposal.

249. ATCO's revised proposal includes $9.3 million operating expenditure for output growth escalation in the AA6 period.

250. As set out in Attachment 2 – Demand, the ERA has forecast alternative demand values for average customer numbers in the AA6 period. The ERA considers these to be the best forecast possible, as required by rule 74(2)(b) of the NGR.

251. Using the ERA's determined average customer numbers and estimated length of mains measured in kilometres, the ERA has determined output growth escalation of $14.9 million in the AA6 period.

Input growth escalation

252. As included in the ERA's draft decision, the ERA considers it reasonable to include an input cost escalation factor in ATCO's operating expenditure forecast for increases in labour and materials costs above inflation in the AA6 period.

253. ATCO continues to propose an operating expenditure resource mix of 62 per cent labour and 38 per cent materials. These weights are consistent with the AA5 decision and similar to a number of the Australian Energy Regulator's recent decisions. The ERA accepted these weightings in the draft decision.

254. In its revised proposal, ATCO has again applied no real cost escalation for non-labour costs, meaning it has forecast that materials will not incur any additional price rises over and above inflation. The ERA accepts ATCO's proposal to apply no real cost escalation for non-labour costs in the operating expenditure for the AA6 period.

255. ATCO, as it did in in its initial proposal, has proposed to apply real labour escalation to its base year operating expenditure and AA6 step changes.

256. ATCO has also maintained the inclusion in its forecast real labour escalator a premium on top of the ERA's preferred forecasting method. The premium is an average of the energy, gas, water and waste services Wage Price Index (WPI) over the All Industries WPI series from 2000 to 2024, resulting in an average premium of 0.37 per cent.

257. Including this premium, ATCO's determined labour cost escalation factor equals 1.02 per cent.

258. To calculate the best forecast of real labour escalation, the ERA has in past access arrangement reviews, used the difference between the average of recent and forecast Western Australian Treasury WPI growth and CPI growth over a five-year period.

259. The ERA has reviewed ATCO's revised proposal for input growth escalation and does not consider that ATCO has provided any additional information from its previous submission to justify the inclusion of an industry sector wage premium.

260. As was the case with ATCO's initial proposal, ATCO's revised operating expenditure proposal does not include a productivity adjustment. The ERA maintains its position from the draft decision and from previous access arrangements, that a business with no productivity growth is unlikely to sustain real wage growth at above-average rates in the long term. It is not reasonable to expect wages growth for ATCO to exceed average wages growth without increases in ATCO's productivity.

261. As a result, the labour cost escalation proposed by ATCO cannot be considered reliably representative of the best forecast for the AA6 period and is therefore inconsistent with rule 74(2)(b) of the NGR.

262. The ERA has used the most recently available data at the time of publishing this final decision. This results in a real labour escalation factor of 0.58 per cent which is the difference between the annual average Western Australian Treasury WPI and CPI, as set out below in Table 5.28.[10]

Table 5.28 Western Australian WPI and CPI data included in calculating the real annual labour escalation for the AA6 period (%)

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

Source: WA Department of Treasury, Government Mid-year financial projections statement 2023-24 (online)[accessed 10 October 2024].

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

263. In the draft decision, the ERA accepted ATCO's approach of adopting a four-year average instead of five-year average, as the value in 2022/23 did not appear to be representative of expected CPI in the AA6 period. The draft decision noted that the ERA would consider the reintroduction of a five-year average in the final decision if appropriate.

264. ATCO's revised proposal has continued to use a four-year average when comparing WA Treasury annual average WPI with annual average CPI, resulting in a real labour cost escalation of 0.67 per cent when excluding the premium.

265. For this final decision the ERA has used a five-year average as this period of time is consistent with the length of an access arrangement. Using a five-year average allows for the smoothing of any outlying high or low values and results in a value that is more representative of an access arrangement period.

266. As a result, the ERA has determined a real labour cost escalation of 0.58 per cent for the AA6 period. This results in an operating expenditure of $5.2 million for input growth escalation for AA6.

Unaccounted for gas

267. ATCO's revised proposal for UAFG operating expenditure in AA6 is $29.6 million. ATCO's revised proposal UAFG operating expenditure is distributed over AA6 as show in Table 5.29.

Table 5.29: ATCO revised forecast UAFG cost for AA6 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029	Total
UAFG	6.0	5.9	5.9	5.9	6.0	29.6

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 192, Table 8.47.

268. ATCO's UAFG operating expenditure is determined using three inputs:

- forecast UAFG percentage rates
- forecast gas volumes
- an assumed gas price.

Forecast UAFG percentage rates

269. ATCO has proposed in its revised proposal a forecast UAFG percentage annually over AA6 as shown in Table 5.30.

Table 5.30: ATCO revised proposal forecast UAFG annually over AA6 (%)

	2025	2026	2027	2028	2029
UAFG	1.81	1.78	1.74	1.73	1.72

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, Attachment 08.09.008 – UAFG Strategy and Forecast, p. 12, Table 4.1.

270. In its revised proposal, ATCO noted that it acknowledges and accepts the ERA's decision to approve ATCO's proposed UAFG percentages for AA6. However, between

their initial and revised proposals, ATCO has increased the UAFG percentage in its forecast of UAFG.

271. The ERA sought additional information as to the increase in ATCO's UAFG percentage between their proposals.

272. ATCO advised that the calculation method for the UAFG percentage has not changed but that the forecast amount of gas consumption demand in the draft decision response and a measurement error has led to the differences between its two proposals.

273. ATCO noted that the level of demand had decreased between its proposals by approximately 5,000 TJ and with all things being equal, a reduction in the total volumes would result in an increase in the UAFG percentage. However, ATCO also noted that UAFG volumes do not decrease at the same proportion that the demand volume decreases as fugitive emissions remain largely unchanged regardless of the level of throughput in the network.

274. ATCO also noted that the Australian Energy Market Operator (AEMO) calculates the actual UAFG Terajoules on behalf of ATCO. A third delivery point for a large gas customer that was deregistered from site but not correctly processed with AEMO resulting in AEMO's system estimating additional usage for this customer. As AEMO estimated customer consumption data for a deregistered customer at an artificially high consumption number for that customer it led to UAFG volumes being understated.

275. The ERA has reviewed the change in percentage based on ATCO's change in demand and the correction of the measurement error and considers that ATCO's revised percentage values are reasonable for forecasting the AA6 period UAFG required.

Forecast gas volumes

276. As noted in Attachment 2 of this decision, ATCO did not accept the ERA's higher draft decision demand forecast for gas consumption. ATCO has again relied on the revised demand forecast prepared by its consultants, Core Energy and Resources.

277. The ERA has not accepted ATCO's proposed forecast demand for gas consumption in AA6 and has forecast alternative demand values resulting in higher gas consumption in the AA6 period to those used by ATCO in its revised forecast.

278. The ERA has used its forecast gas consumption values to calculate ATCO's UAFG for AA6. Table 5.31 below shows ATCO's revised forecast and the ERA's determined UAFG volumes (TJ) based on its demand forecast gas consumption values.

Table 5.31: ATCO revised forecast and ERA's determined UAFG volumes (TJ)

	2025	2026	2027	2028	2029
ATCO revised UAFG volume	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ERA Final Decision UAFG volume	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, Attachment 08.09.008 – UAFG Strategy and Forecast, p. 12, table 4.1 and ERA analysis.

279. In its revised proposal, ATCO has again proposed to use a combination of gases to meet its UAFG requirements in AA6. ATCO has proposed to use a combination of natural gas and biomethane. As set out in final decision Attachment 4, the ERA has

not approved the capital expenditure relating to the enabling of renewable gases, which is required to be able to inject biomethane into the network.

280. As a result of the capital expenditure being disallowed, the ERA has subsequently rejected the use of biomethane as a UAFG replacement. The ERA has determined that ATCO's UAFG requirement for AA6 will be met entirely with natural gas.

Assumed gas price

281. ATCO undertook a recent tender process for the supply of natural gas to meet its UAFG requirements for the full five-year AA6 period. This price of [redacted] per GJ is slightly higher than ATCO's original submission price of [redacted] per GJ.

282. The ERA considers ATCO's price for natural gas for AA6 is reasonable based on the tender process undertaken by ATCO in sourcing its UAFG requirement. The ERA has used a gas price of [redacted] per GJ in making this final decision calculation for UAFG expenditure for AA6.

ERA UAFG forecast operating expenditure

283. Taking into account its determination on forecast UAFG percentage rates, gas volumes, and assumed gas price, the ERA has determined UAFG operating expenditure of $30.3 million for AA6.

Ancillary services

284. The ERA has not accepted ATCO's AA6 revised proposal for ancillary reference services of $22.2 million.

285. As set out in final decision Attachment 2, the ERA has forecast higher alternative volumes of ancillary reference services to be undertaken by ATCO in the AA6 period. These are considered to be the best forecast possible for ancillary services volumes, as required by rule 74(2)(b), and therefore these volumes have been applied to calculate the ancillary services operating expenditure included in this final decision.

286. ATCO did not accept the ERA's determination of unit rates in the draft decision. ATCO has provided updated unit rates for the ancillary services based on its latest actual data from 2023. ATCO has provided the ERA with a breakdown of how the unit costs have been arrived at using direct costs, a portion of the commercial services team costs for some of the services and overheads to arrive at the total cost per the regulatory accounts. Some of these unit rates have been increased by known contractual rate increases where appropriate.

287. ATCO notes in its revised proposal that it applied the 2023 actual rates, which it considered truly represent the unit rates for future periods, to calculate the unit rates for all ancillary reference services, including the permanent disconnection service, for AA6.

288. The ERA requested additional information from ATCO on the ancillary services historical volumes and unit rates. For the AA6 forecast, ATCO has used the actual unit rates of 2023 for deregistration's, regulator removals and regulator reinstalls. For the meter lock applications, meter lock removals and special meter reads, ATCO has used the actual unit rates of 2023 plus a real dollar rate increase due to contract renegotiation.

289. For the permanent disconnection (cut and cap) ancillary service, ATCO has used a rate of $1,136.11 in its revised proposal. In ATCO's response to an information request, the

unit rate for the permanent disconnection ancillary service is listed as $1,010.91.[11] This rate is also listed as the rate in the 2024 forecast column (in 2023 dollars).

290. TRAC Partners considered that it was unclear how the unit rate for the permanent disconnection ancillary service reflects the efficient costs of providing this service and that a benchmarking comparison should be made of similar services in Australia. The ERA has reviewed the actual cost proposed by ATCO for 2023 and previous years and noted that the unit rates are reasonable for delivering this disconnection service. TRAC Partners noted that there might be other lower cost safe disconnection methods. There are other options for customers who wish to disconnect from their service but if these customers require a permanent disconnection which is commonly requested when a customer is redeveloping an existing gas connected house, then this service is required to safely disconnect. There are cheaper disconnection options for customers who were simply electrifying their home.

291. The ERA has accepted ATCO's unit rates for all ancillary services, except for the permanent disconnection service. For the permanent disconnection service, the ERA has applied the 2023 actual rate, noting ATCO's claim that the 2023 rates "truly represent the unit rates for future periods." Hence, for the permanent disconnection ancillary service, the ERA has decided to use a value of $1,010.91.

292. As a result of using the ERA's determined ancillary service higher volumes and the adjusted lower rate for the permanent disconnection service the ERA has determined a value of $25.2 million for ancillary services operating expenditure.

Final decision amendments summary

293. Taking into account the ERA's required amendments, the ERA has determined that operating expenditure for the AA6 period is $428.6 million as set out below in Table 5.32.

11 Information request – ERA23.

Table 5.32 ERA Final Decision forecast operating expenditure for AA6 ($ million real as at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 total
Base operating expenditure	65.3	65.3	65.3	65.3	65.3	326.6
Recurrent step changes	1.6	2.6	2.8	3.0	3.0	13.1
Non-recurrent step changes	0.4	1.5	2.5	5.3	3.7	13.3
Output growth escalation	1.5	2.2	2.9	3.7	4.6	14.9
Input cost escalation	0.5	0.8	1.0	1.3	1.6	5.2
Sub-total network, corporate and IT	**69.3**	**72.3**	**74.6**	**78.7**	**78.2**	**373.1**
UAFG	5.9	6.1	6.1	6.1	6.1	30.3
Ancillary services	4.9	5.0	5.0	5.1	5.2	25.2
Total forecast operating expenditure	**80.1**	**83.4**	**85.8**	**89.9**	**89.5**	**428.6**

Source: ERA Analysis.

Required Amendment

5.1 The access arrangement information must be amended to reflect a forecast operating expenditure for AA6 of $428.6 million ($ million real at 31 December 2023).

Working capital

294. Working capital refers to a stock of funds that must be maintained by a service provider to pay costs as they fall due. In circumstances where the costs of providing services are incurred before the revenues from the provision of services are received, a stock of working capital may need to be derived from a capital investment in the business. The cost of this stock of working capital (that is, the required return on the capital investment) is a cost of the service provider of operating its business and providing services.

295. The NGL and NGR do not make reference to the cost of working capital used by a service provider. Rule 76 of the NGR states that total revenue is to be determined for each regulatory year of the access arrangement period using the building block approach. While the cost of working capital is not specifically included as a building block, ATCO has separately included the cost of working capital as a line item in its building block calculations.

296. ATCO proposed that its working capital refers to stock of funds that it must maintain to pay costs as they fall due, and inventory held to meet service requirements within mandated or reasonable service delivery times.

297. The requirement to maintain a stock of funds arises from the timing misalignment (on average) between incurring the costs of providing services and recovering the revenues associated with those services. In addition, a stock of materials is held to allow the efficient and timely provision of services. Therefore, the cost of working capital represents the efficient costs of a business that receives revenue at a different time than when it incurs costs.

298. ATCO estimated the cost of capital using the working capital cycle model, which has three core components: inventory, creditors, and receivables.

299. The ERA approved the use of the working capital cycle model in the draft decision and accepted the parameters applied to each component of working capital. The ERA did note the increase over the AA5 period in the percentage of inventory held and that it would assess this further upon receipt of the 2023 percentage.

300. ATCO's 2023 inventory parameter, year-end inventory as a percent of capex for 2023, was 2.42 per cent. Due to the minor variation, ATCO has not amended the parameter used in the working capital calculation.

301. ATCO has maintained the parameters proposed in its initial proposal as set out below in Table 5.33. ATCO's calculation of its working capital for AA6 is based on these parameters and is shown in Table 5.34.

Table 5.33 ATCO's AA6 working capital parameters

Parameter	AA6 (proposed)	Basis of calculation
Inventory as a % of capital expenditure (%)	2.26	Determined from the average inventory level as a percentage of the forecast capital expenditure program. This measure does not include work in progress or completed assets not yet added to the RAB.
Creditors (Days)	19	Determined from the standard terms of payment to suppliers, labour, and suppliers of unaccounted for gas. The amount relates to total expenditure, including capital expenditure.
Receivables (Days)	62	Determined from the payment terms of contracts with retailers

Source: ATCO, 2025-29 Plan (Access Arrangement Information), 1 September 2023, p. 222, Table 14.4.

Table 5.34: ATCO's revised proposal working capital calculation for AA6

	2025	2026	2027	2028	2029
Opening working capital ($million nominal)	23.0	37.6	39.7	42.8	44.5
WACC (% nominal)	7.33	7.33	7.33	7.33	7.33
Return on working capital ($million nominal)	1.7	2.8	2.9	3.1	3.3
Deflator to $real 2023	0.940	0.917	0.894	0.872	0.851
Return on working capital ($million real 2023)	**1.6**	**2.5**	**2.6**	**2.7**	**2.8**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 197-198, Table 9.3.

302. The ERA notes that ATCO calculated the return on working capital using the same working capital model that was used in ATCO's initial proposal and in the ERA's draft decision.

303. ATCO has maintained the parameters it proposed in its initial proposal. The ERA reviewed these parameters and accepted ATCO's proposed working capital parameters for the level of inventory, creditors and receivables.

304. However, the return on capital will change as a result of required amendments to other aspects of ATCO's proposal such as capital and operating expenditure in AA6. As a result, the ERA has recalculated the return on working capital for AA6 in Table 5.35.

Table 5.35 ERA's final decision working capital calculation for AA6

	2025	2026	2027	2028	2029
Opening working capital ($million nominal)	23.0	32.9	36.6	39.4	41.3
WACC (% nominal)	6.99%	6.99%	6.99%	6.99%	6.99%
Return on working capital ($million nominal)	1.6	2.3	2.6	2.8	2.9
Deflator to $real 2023	0.957	0.936	0.915	0.895	0.876
Return on working capital ($million real 2023)	**1.5**	**2.2**	**2.3**	**2.5**	**2.5**

Source: ERA analysis.

Required Amendment

5.2 The access arrangement information must be amended to reflect a return of working capital for AA6 of $11.0 million ($ million real at 31 December 2023).

Appendix 1 List of Tables