Revised Final Plan
Attachment 12.2

Response to Draft Decision on Incentives

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PUBLIC

Dampier Bunbury Pipeline

1 Response to Draft Decision on Incentives

The opex incentive arrangement ('E Factor') was introduced for the first time in AA5 to further incentivise efficient opex. Amidst significant cost pressures, we have maintained relative opex efficiency in AA5 but a change in capitalisation policy concerning DBP labour costs has contributed to our proposal for a larger negative carryover for AA6 ($52.3 million), which will provide some price relief to our customers from the associated higher opex. In calculating this carryover, we are proposing to include a portion of the labour cost rate update in 2024 to help offset the increase in base year opex (by $21.6 million) but exclude a small portion of asset management expenditure that was not factored in. We have also applied our revised opex forecasts in our E Factor benchmark calculations for AA6 but have otherwise accepted the ERA's decisions regarding drafting of the AA document clauses and exclusions for the mechanism in the next period.

1.1 Overview

This attachment sets out our response to the ERA's Draft Decision on our operating expenditure incentive mechanism outlined in Attachment 7 of the ERA's Draft Decision. In particular, we are responding in this Attachment to Required Amendments 7.3 to 7.6.

Required Amendment 7.3

DBP must apply a negative efficiency carryover of $37.0 million (real as at 31 December 2024) in AA6 in accordance with the calculations set out in Table 7.12 and Table 7.13 of Draft Decision Attachment 7.

The ERA's Draft Decision for a negative carryover of $37.0 million in AA6[1] incorporates:

- acceptance of our proposal in our Final Plan to exclude the labour cost rate from the calculation of the carryover from AA5 (in doing so, the ERA has added the relevant amount for the update to the E Factor benchmark in 2024), but
- rejection of our proposal to exclude the 'Inspections and other asset management' category from the calculation of the carryover from AA5.[2]

In calculating the carryover, the ERA has otherwise adjusted the E Factor benchmark for exclusions and adjustments over AA5, rather than our actual opex performance, which is consistent with clause 15.12 of the AA5 document.[3]

One central concern that we have regarding the E Factor scheme is around the associated decisions on base year opex by the ERA (as in Attachment 5 to the Draft Decision), which significantly reduce the approved base year amount carried over to 2026.

With this approach, DBP is significantly over penalised over the AA6 years by application of the E Factor mechanism, the extent of which is well beyond efficiency requirements under NGR 91(1) and contravenes NGR 98(3)[4]. In fact, more than $18 million of the ERA's draft negative carryover is effectively an over penalty to DBP when the base year opex decisions

[1] *ERA Draft Decision Attachment 7, [120]*
[2] *ERA Draft Decision Attachment 7, Table 7.2*
[3] *ERA Draft Decision Attachment 7, [113] to [120]*
[4] *That the incentive scheme is consistent with NGR revenue and pricing principles, including appropriate revenue recovery.*

are also considered because the ERA has also disallowed this additional expenditure ($4.6 million) from being rolled over from 2024 into AA6.[5]

In its decisions on AA5, the ERA considered whether the E Factor scheme was consistent with the revenue and pricing principles of the National Gas Law (NGL) (rule 98(3) of the NGR) and the national gas objective, and in doing so, it identified the scheme's symmetrical operation, specifically the application of carry forward decrements in the operator's total revenue allowance.[6] But it is not symmetrical if the base year expenses from 2024 are not allowed in the next period but still included in the carryover calculation.

Under the application of the scheme, if we underperform the benchmark in a year (spend more than the target), we are supposed to be penalised approximately 30% (as an efficiency loss), with the other estimated 70% returned to customers via a tariff revenue adjustment in AA6.[7]

As we noted in our Response on Operating Expenditure (Attachment 8.6), this relationship between base year opex and the E Factor mechanism should be reconsidered by the ERA in the Final Decision regarding our base year opex allowance in AA6.

However, we also acknowledge that the impact of the labour cost rate update and to help offset the higher base year opex in our revised Final Plan and reduce the negative price impact on customers, we propose to include a share of the impact in the calculation of the carryover, rather than excluding it. This step should reduce our revenue allowance by $21.6 million (through the larger negative carryover)

We also propose that a small subset of 'Inspections and other asset management' expenditure ($1.6 million) be excluded as it was unplanned and outside DBP's control in AA5 but required for safety and reliability reasons to further inspect and undertake rectification works primarily for worse than anticipated corrosion on the pipeline.

Together with our other revisions to forecast operating expenditure in the base year (see Attachment 8.1), we propose an updated negative efficiency carryover of $52.3 million (December 2024 dollars). More detail is provided in section 1.3 below.

Our forecast for the E Factor carryover assumes appropriate reconsideration by the ERA regarding base year opex so that this amount does not constitute an over penalty to DBP.

Required Amendment 7.4

DBP must amend section 15 the proposed access arrangement, which details the provisions for the E Factor scheme, to set out the E Factor benchmarks that will apply for AA6.

We have applied this amendment to the AA6 document (Attachment 15.5).

Required Amendment 7.5

DBP must amend clauses 15.9 and 15.10 of the proposed access arrangement, which detail the exclusions and adjustments that apply to the annual E Factor benchmark, to be consistent with the revised drafting set out in paragraph 135 of Draft Decision Attachment 7.

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[5] This excludes the impact of any base year adjustment that we proposed and isolates only that expenditure in 2024 which was not allowed to be rolled over into AA6 across relevant expense items (apart from the impact of the labour cost rate update).
[6] Seethe ERA's Fial Decision for AA5, available here, [1644]
[7] See our Final Plan, Attachment 12.2, available here, section 1.1

We have applied these amendments to the AA6 document with our proposed E Factor benchmarks to apply from 2026 to 2030.

Required Amendment 7.6

DBP must update the E Factor benchmarks to apply for AA6 to reflect the benchmarks set out in Table 7.14 of Draft Decision Attachment 7. The E Factor benchmarks must be set out in the access arrangement.

Table 7.14 is reproduced below (as Table 1.1). We accept the drafting decision to include the E Factor benchmarks in the AA6 document but have proposed adjusted estimates for the benchmarks as set in section 1.3.4 below.

Table 1.1: ERA draft decision E Factor benchmarks for AA6 ($ million real 2024)

	2026	2027	2028	2029	2030
Total forecast opex Note 1	105.8	110.9	108.9	103.5	106.0
Less excluded cost categories:					
System Use Gas	22.7	20.4	19.1	17.3	18.0
GEA/turbine overhauls	4.9	5.6	4.5	6.9	7.8
E Factor benchmark	**78.20**	**84.90**	**85.30**	**79.30**	**80.20**

Note 1: Adjustments to total forecast opex are provided under clause 15.11 of the proposed access arrangement approved by this draft decision.

Source: ERA, Revenue Model, July 2025.

1.2 ERA Draft Decision

The four Required Amendments by the ERA above are summarised in Table 1.2 in the context of our main proposals for the E Factor mechanism in AA6 from our Final Plan. These items address the ERA's decisions regarding the terms of the carryover applicable based on AA5 opex performance against the benchmark (with reference to approved exclusions) and the provisions to apply in the next Access Arrangement period (AA6) for continuation of the scheme.

Table 1.2: Summary of ERA's Draft Decision on the E Factor Mechanism

	ERA Draft Decision	ERA Comment
Exclusion of labour cost rate update from calculation of carryover (AA5 performance)	Modify	The ERA accepted our proposal in principle to exclude the impact of the labour cost rate update in 2024 ($7.7 million) in the calculation of the E Factor carryover based on AA5 opex performance. However, it adjusted the calculation so that it is the benchmark which includes the impact on opex from the change (rather than excluding it from our actual opex performance in the same year, as we proposed).[8] The ERA noted that clause 15.12 of the AA5 document requires DBP to adjust the E Factor benchmark for consistency with any changes in capitalisation policy rather than the actual opex expenditure applicable.[9]

[8] *ERA Draft Decision Attachment 7, [118] to [120] and Table 7.12*
[9] *ERA Draft Decision Attachment 7, [119]*

	ERA Draft Decision	ERA Comment
		Similarly, the ERA adjusted the AA5 E Factor benchmark for movement in provisions[10] as a previously approved exclusion from 'opex efficiency' performance, like it is reported in the Regulatory Information Notice in 2024 (rather than adjusting our actual opex performance).
Exclusion of 'Inspections and other asset management' category from calculation of carryover (AA5 performance)	Reject	The ERA has not approved the exclusion of the 'Inspections and other asset management' category from the calculation of the carryover from AA5 as we proposed on the basis that it considers the costs to be routine and recurrent nature, and so largely within DBP's control.[11] In circumstances where unexpected costs do arise from routine inspections and other asset management activities, and are outside DBP's control (for example, additional operating costs to rectify an uncovered fault), ERA stated that these costs may be considered under other provisions of the E Factor that provide for the exclusion of: • Any operating expenditure not forecast but that meets the criteria for operating expenditure and was incurred for the purpose of reducing capital expenditure (as per clause 15.11(c) of AA5). • Any other operating expenditure amount that the ERA agrees or requires DBP to exclude (as per clause 15.11(e) of AA5).[12]
Section 15 provisions in AA6 for the E Factor scheme and benchmarks	Modify	The ERA has accepted DBP's proposed continuation of the scheme into AA6 and the proposed amendments to the wording to improve the clarity of existing provisions and remove provisions that are no longer relevant.[13] To enhance transparency, the ERA has also decided that: • E Factor outcomes (increments/decrements) must be shown as a "building block" component for total revenue, and • E Factor benchmarks must continue to be disclosed in the access arrangement provisions (in response to our proposal to delete them because they are disclosed in the Opex Forecast Model).[14] The ERA has also noted a referencing error in clause 15.2(c) to be addressed in our revised proposal.[15]
Exclusion of 'Inspections and other asset management' category in AA6 E Factor Benchmark	Modify	For AA6, the ERA has rejected the proposal to exclude the 'Inspections and other asset management' category from the E Factor benchmark applying. It noted that the costs are fundamental to the operations of the DBNGP, and within DBP's control given their routine and recurrent nature. In particular it noted that most of the expenditure in AA6 is for inline inspections that are periodic and planned. If there were any significant unforeseen problems that were exposed through these inspections, then any additional operating expenditure may be considered under the other broader provisions of the E Factor that allow for additional exclusions at the end of the period. Otherwise, specific excludable costs in AA6 are limited to system use gas and turbine/gas engine alternator (GEA) overhauls expenditure (consistent with the excludable costs that were used to determine the AA5 E Factor benchmarks).[16]

[10] *ERA Draft Decision Attachment 7, [118] and Table 7.12*
[11] *ERA Draft Decision Attachment 7, p 2*
[12] *Ibid*
[13] *ERA Draft Decision Attachment 7, [123]*
[14] *ERA Draft Decision Attachment 7, pp 1-2*
[15] *ERA Draft Decision Attachment 7, [123]*
[16] *ERA Draft Decision Attachment 7, [129] to [132]*

	ERA Draft Decision	ERA Comment
E Factor benchmarks to apply for AA6	Modify	The ERA also considered that the drafting of clauses 15.9 and 15.10 in the proposed access arrangement need amending to better clarify: • How the annual E Factor benchmarks are determined and what exclusions apply. • How actual/estimated operating expenditure is determined for the application of the E Factor calculation. • The circumstances in which the E Factor benchmark can be adjusted. • The E Factor benchmarks that will apply for the access arrangement period.[17] Under clause 15.11, the annual E Factor benchmark may be adjusted for: a) movement in provisions (for example, employee leave provisions); b) any operating expenditure amount not included in the ERA approved operating expenditure forecast, but that meets the requirements of Rule 91(1) and was incurred for the purpose of reducing capital expenditure; c) operating expenditure arising from an approved cost pass through event which applies in respect of that year; d) capitalisation policy changes that result when the Operator changes its approach to classifying costs as either capital or operating expenditure during the access arrangement period; e) any operating expenditure amount that the ERA agrees or requires the Operator to exclude from the E Factor benchmark.[18] The ERA's recommended E Factor benchmarks are consistent with its Draft Decision on forecast opex for AA6 and excludable costs (system use gas and GEA/turbine overhauls), as above

Note: In this 'traffic light' table, green shading represents the ERA's acceptance of our Final Plan, orange represents the ERA's modification of our Final Plan and red shading represents the ERA's rejection of our Final Plan.

1.3 Our Response to the Draft Decision

Our response to the ERA's draft decisions in respect of the E factor incentive scheme and reasons for any modifications are summarised in Table 1.3.

Table 1.3: Summary of our response to ERA's Draft Decision on the E Factor mechanism

	ERA Draft Decision	Our Response	Our Comment
Exclusion of labour cost rate update from calculation of carryover (AA5 performance)	Modify	Modify	We now propose to exclude a share of the impact of the labour cost rate ($5.4 million) where there is no offset to regulatory capex to the calculation of the E factor carryover based on AA5 opex performance to reduce the impact of the change on customers through higher tariffs.

[17] *ERA Draft Decision Attachment 7, [133] to [135]*
[18] *ERA Draft Decision Attachment 7, [135]*

	ERA Draft Decision	Our Response	Our Comment
Exclusion of 'Inspections and other asset management' category from calculation of carryover (AA5 performance)	Reject	Modify	We accept the decision in principle not to exclude the entire category from calculation of the E Factor carryover but have proposed that a subset of expenditure for additional unforeseen inspection and works to address asset corrosion ($1.6 million) be excluded from the calculation of the benchmark for the reasons cited by the ERA as reasonable for this purpose, under either clause 15.11(c) or clause 15.11(e).
Section 15 provisions in AA6 for the E Factor scheme and benchmarks	Modify	Accept	We accept the AA drafting decisions relevant to the scheme.
Exclusion of 'Inspections and other asset management' category in AA6 E Factor Benchmark	Modify	Accept	We accept the decision to not exclude the 'Inspections and other asset management' category from the E Factor benchmark for AA6, noting that unforeseen or uncontrollable expenditure needs can be considered under broader provisions of the AA on a case-by-case basis as the ERA has identified.
E Factor benchmarks to apply for AA6	Modify	Modify	We accept the decision to include the benchmarks but have modified our forecasts to be consistent with our opex forecasts in Attachment 8.1.

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification, and red shading represents a rejection.

1.3.1 Treatment of labour cost rate update for carryover

In 2024, DBP salary expenses increased from a reduction in internal labour rates charged for staff time on capital expenditure projects and other areas of the AGIG business.[19] The change in rates represented a change in capitalisation policy for greater efficiency in the market. It followed rebalancing of the salary oncosts relative to salary levels and the necessity for the rates to be more aligned with market levels. This is demonstrated by the benchmarking of fully costed labour rates against average rates in the market (see Attachment 8.7) which shows that the reduced labour charge out rates are consistent with market.

Given the change in capitalisation policy, we proposed in our Final Plan that the impact of the labour cost rate ($7.7 million) should be excluded from the calculation of the E Factor carryover for 2024.[20] The benchmark was set under the old charge out rate and it was a prudent adjustment in a market-based environment.

In its Draft Decision, the ERA agreed to exclude the labour rate from the calculation of the E Factor carryover but determined that, by application of clause 15.12 of AA5, it should be

[19] *AA6 Final Plan, pp 74-75 and EMCa18 Opex – Response to questions - CONFIDENTIAL, question 39a.*
[20] *AA6 Final Plan, pp 86-87.*

added to the E Factor benchmark for 2024 rather than being deducted from actual operating expenditure.[21]

It also disallowed any of the additional costs attached to the change in the base year for 2026 and reduced salaries expenses by $11.2 million in total, a reduction significantly higher than the impact of the labour cost rate impact.[22]

In our revised Final Plan responding to the ERA's Draft Decision on Operating Expenditure (Attachment 8.6) we have argued for the impact of the labour cost rate to be reinstated into the base year for 2026 (along with other real salary costs). However, we also acknowledge that the labour cost rate change has had an impact on our expenses.

We therefore propose that $5.4 million of the $7.7 million impact should be retained in the 2024 operating expenditure used in the E-Factor. We however propose that the portion of the gross labour capitalisation costs that has been effectively reallocated from regulatory capex projects ($2.3 million)[23] should still be excluded as the Regulated Asset Base (RAB) is consequentially lower. Accordingly, we have proposed that $2.3 million is added to the E Factor benchmark for 2024 for the capitalisation policy change only (see Table 1.4 below).

The impact of the change to the treatment of the labour cost rate change is negative $21.6 million (expanding the negative carryover by this amount) or an average of $4.3 million per year.

This proposal is predicated on the additional costs attached to the labour cost rate being approved in the base year opex for 2026 in full since they are already part of opex in 2024.

1.3.2 Exclusion of subset of inspections and other asset management expenditure for carryover

In our Final Plan, we also proposed that the 'Inspections and other asset management' expenditure ($12.9 million in total over AA5) be excluded from the calculation of the E Factor carryover. We submitted that the higher expenditure was driven by the need for additional inspections, including related to investigations for defects, asset corrosion, as well as new projects for the replacement of critical spares and the development of essential training modules for process safety. These activities were beyond our control since maintaining the safety and reliability of the pipeline is most critical.[24]

The ERA did not accept exclusion of this category from the E Factor carryover calculation because it considers that the costs are routine and recurrent in nature, and largely within DBP's control.[25]

It stated that in circumstances where unexpected costs do arise from routine inspections and other asset management activities, and are outside DBP's control (for example, additional operating costs to rectify an uncovered fault), these costs may be considered under other provisions of the E Factor that provide for the exclusion of:

[21] ERA Draft Decision Attachment 7, [119] to [120]
[22] ERA Draft Decision Attachment 5, [30] and Table 5.5
[23] The $2.3 million is calculated from the gross labour allocation to regulatory capex of an estimated $6.9 million in 2024 divided by 75% and multiplied by 25% to determine the impact of the labour cost rate update (see: EMCa18 Opex – Response to questions - CONFIDENTIAL, question 39a).
[24] AA6 Final Plan, p 87
[25] ERA Draft Decision Attachment 7, p 2

- Any operating expenditure not forecast but that meets the criteria for operating expenditure and was incurred for the purpose of reducing capital expenditure (as per clause 15.11(c) of AA5).
- Any other operating expenditure amount that the ERA agrees or requires DBP to exclude (as per clause 15.11(e) of AA5).[26]

This is consistent with its final decision on the E Factor scheme to apply in AA5 where it considered it difficult to determine what costs are outside of DBP's control and to what extent those costs are outside of DBP's control on an ex ante basis but that clauses 15.11(c) and 15.11(e) give rise to the possibility of costs being excluded on an ex post basis if they are outside DBP's control.[27]

We propose in our revised Final Plan that a subset of 'Inspections and other asset management' expenditure in AA5 still be excluded from the carryover for precisely this reason (e.g. unexpected costs arising outside DBP's control for uncovered faults), applied under either of these provisions (clause 15.11(c) or 15.11(e)).

The overspend in AA5 in relation to inspections was mainly due to unforeseen corrosion defects found during periodic integrity inspection of the assets including water-bath heaters, where the scope of the inspection was expanded to include removal of outer insulation material for 100% inspection and the required rectification of defects.

This $1.6 million in expenditure was not included in the original benchmark and penalising DBP under the efficiency scheme for undertaking this work, which has been essential to maintaining the safety and integrity of the pipeline, would not be reasonable.

Table 1.4 shows the allocation of expenditure over AA5 for the additional work involved in addressing unforeseen asset corrosion, together with the other exclusions for calculation of the E Factor benchmark.

[26] *Ibid*
[27] *See the ERA's Fial Decision for AA5, available here [1806] to [1807]*

Table 1.4: DBP Revised E Factor benchmarks for AA5 ($ million December 2024)

	2021	2022	2023	2024	2025
Opex allowance applicable to the E Factor	110.6	107.4	106.4	93.6	95.6
Proposed adjustments:					
Movement in provisions	6.4	0.5	0.8	0.0	0.0
Change in capitalisation policy				2.3	
Expenditure unforeseen asset corrosion				1.6	
Less excludable costs:					
System Use Gas	24.5	23.5	22.1	16.5	16.0
GEA/turbine overhauls	10.3	8.4	8.4	1.2	2.5
Revised E Factor benchmark	**82.2**	**76.0**	**76.7**	**79.8**	**77.1**

We otherwise accept the ERA's Draft Decision to not include the 'Inspections and other Asset Management' category in the list of specified exclusions from the E Factor benchmark for AA6 given the broader provisions that are still applicable to cover unexpected expenditure cases.

1.3.3 Revised Final Plan carryover forecast for AA6

The calculation of the E Factor benchmark incorporating the inclusion of the opex impact from the labour cost rate change (other than the corresponding increase in regulatory capex) and the exclusion of a share of asset management expenditure to address corrosion, as was discussed in the previous two sections, are presented in Table 1.5 below.

The revised E factor benchmark results in the revised negative carryover of $52.3 million in AA6 as a building block. The implication is that DBP's revenue will be reduced by an average of $10.5 million per year, which offers a considerable price reduction to customers through the operation of the scheme, offsetting the rising opex that has occurred at the end of AA5.

We wish to reemphasise that this proposed carryover assumes that base year opex proposed to be rolled over from 2024 to 2026 is accepted in the ERA's final decision on opex, otherwise it constitutes a significant over penalty which is unreasonable and inconsistent with efficiency requirements under NGR 91(1) and the pricing and revenue principles of NGR 98(3).

The scheme was approved by the ERA in AA5 and the expectation is that it is to operate as intended in tandem with opex performance (including the rollover of base year opex into AA6) in a symmetrical and reasonable manner. Even when increasing costs are due to market conditions rather than inefficiency (as numerous market indicators such as producer price indexes and measures of employment and labour market reports over the period would suggest), the DBNGP is still penalised for underperformance against the benchmark, but it shouldn't be penalised if there's not approval for the ongoing cost base into AA6.

Table 1.5: Proposed E Factor Carryover Calculation

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
E Factor benchmark (A)	**82.2**	**76.0**	**76.7**	**79.8**	**77.1**						
Actual opex (B)	74.7	66.6	71.0	87.2	87.2						
Annual saving (C = A - B)	7.5	9.4	5.7	-7.4	0.0						
Incremental saving ($C_n = C_n - C_{n-1}$)	7.5	1.9	-3.7	-13.1	0.0						
E Factor carryover amounts											**Total**
Year 1		7.6	7.6	7.6	7.6	7.6					
Year 2			1.8	1.8	1.8	1.8	1.8				
Year 3				-3.7	-3.7	-3.7	-3.7	-3.7			
Year 4					-13.1	-13.1	-13.1	-13.1	-13.1		
Year 5						0.0	0.0	0.0	0.0	0.0	
Total carryover amount (E Factor 'building block')						**-7.4**	**-15.0**	**-16.8**	**-13.1**	**0.0**	**52.3**

Note: The E Factor benchmark (A) calculation is shown in Table 14. The estimates of annual opex at B are based on total annual opex excluding system use gas and GEA/turbine overhauls expenditure, and these estimates are consistent with Table 7.12 in Draft Decision, Attachment 7. The incremental opex saving for 2025 is assumed to be zero.

1.3.4 Revised Plan E Factor benchmarks for AA6

Applying our Revised Plan opex forecasts for AA6 and the exclusions approved by the ERA, our updated forecasts for the E Factor benchmarks which have been included in clause 15 of the AA6 document are in Table 1.6 below.

Table 1.6: DBP Revised E Factor benchmarks for AA6 ($ million real 2024)

	2026	2027	2028	2029	2030
Total forecast opex Note 1	118.1	129.6	127.5	122.1	125.0
Less excluded cost categories:					
System Use Gas	18.1	18.7	20.3	18.2	19.2
GEA/turbine overhauls	4.9	8.8	4.5	6.9	7.8
E Factor benchmark	**95.2**	**102.1**	**102.7**	**97.0**	**98.1**

Note 1: Adjustments to total forecast opex are provided under clause 15.11 of the proposed access arrangement as was approved by the ERA in its draft decision.