Economic Regulation Authority

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

Attachment 4: Regulatory capital base

8 November 2024

D283308

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.

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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:

- Final decision on access arrangement for the Mid-West and South-West Gas Distribution Systems (2025 to 2029) – Overview, 8 November 2024:
  - Attachment 1: Access arrangement and services
  - Attachment 2: Demand
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  - Attachment 4: Regulatory capital base (this document)
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Attachment 4. Summary

The setting of the capital base is an important step in determining two elements of the revenue required by ATCO to operate and maintain the gas distribution system: the return on the capital base (covered in Attachment 7); and the return of the capital base (depreciation) (covered in Attachment 6).

The regulatory framework requires the roll forward of the capital base from the current access arrangement period (AA5) to the new access arrangement period (AA6). The actual capital expenditure incurred during AA5 is reviewed by the ERA and once accepted, is locked into the capital base going forward and used to set the opening capital base for AA6. As the actual capital expenditure for the last year of the AA5 period (2024) is not known before the publication of this final decision, there will need to be an adjustment for any under-forecast or over-forecast expenditure when the AA7 period assessment is carried out. The projected capital base for AA6 is important for setting the tariffs during this AA6 period and so must reflect the best possible forecast of prudent and efficient investment and allow an appropriate amount of depreciation.

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

The ERA assessed ATCO's proposed actual and forecast capital expenditure for AA5 and AA6 in accordance with the National Gas Rules using a three-step framework:

- Consider whether the expenditure is justifiable under the various grounds (economic, incremental revenue, safety, integrity).[1]
- Evaluate whether the expenditure would be undertaken by a prudent service provider acting efficiently, in accordance with accepted good industry practice to achieve the lowest sustainable cost of providing services consistent with the national gas objective.[2]
- Assess whether forecasts or estimates have been arrived at on a reasonable basis and do they represent the best forecast or estimate possible in the circumstances.[3]

Opening capital base

The opening capital base for the start of the AA6 period (1 January 2025) is $1,582.5 million. This reflects the ERA's final decision on the amount of conforming capital expenditure for AA5 and the inclusion of the approved AA5 depreciation.[4]

The ERA's final decision approves $398.8 million for AA5 capital expenditure. This is $0.7 million higher than the draft decision and $1.4 million less than ATCO's revised proposal.

The reductions from ATCO's revised proposal relate to the removal of project contingencies in 2024 costs estimates from a number of network sustaining projects ($1.1 million) and from some IT projects ($0.3 million). The ERA notes that these cost estimates for 2024 were provided by ATCO in June 2024 and by that time ATCO should have had a good understanding of the expenditure for 2024. In any event, the ERA considers that project

1 NGR, rule 79(1)(b) and 79(2).

2 NGR, rule 79(1)(a).

3 NGR, rule 74(2).

4 The final decision approves actual (2020, 2021, 2022 and 2023) and forecast (2024) capital expenditure.

contingencies are not warranted as the ERA is approving capital expenditure in aggregate and the inclusion of contingencies for individual projects will over-inflate the aggregate forecast.

Table 4.1: ERA final decision comparison ($ million real at 31 December 2023)

Project category	ATCO initial proposal	Draft decision	ATCO revised proposal	Final decision
Network sustaining	214.4	205.5	204.9	203.8
Network growth	143.0	141.7	145.1	145.1
Structures and equipment	21.6	19.8	18.6	18.6
Information technology	34.6	31.0	31.6	31.3
Total	**413.7**	**398.1**	**400.2**	**398.8**

Source: ATCO proposals, ERA draft decision; ERA analysis

Projected capital base

The projected capital base for the end of the AA6 period (31 December 2029) is $1,681.1 million. This reflects the ERA's final decision on the amount of conforming forecast capital expenditure and depreciation for AA6.

The ERA's final decision approves AA6 capital expenditure of $504.5 million. This is $61.4 million (13.9 per cent) higher than the draft decision and $13.8 million (2.8 per cent) higher than ATCO's revised proposal.

The increase in the ERA's approved final decision capital expenditure from the draft decision is mainly driven by:

- **Information technology (IT) expenditure ($32.4 million higher)**:
  - ATCO proposed a significant increase in its IT capital expenditure from the original proposal to its revised proposal. While ATCO removed some original programs, it proposed IT programs that were more costly and as a result led to an increase in overall IT expenditure.
  - The ERA and its technical consultant, EMCa reviewed ATCO's revised proposal in detail and followed up on a number of queries. EMCa noted that the cost estimate provided as part of the initial proposal was not likely to reflect the total cost of successfully implementing projects of the complexity and scale required. This reflected a poorly developed initial estimate that omitted or under-estimated significant aspects of scope. Nevertheless, in general, EMCa found that most items in the revised proposal are warranted and other than contingency, the ERA finds most of the cost conforms with the NGR.
  - The change in IT expenditure between the draft and the final decisions was driven by the large increase between ATCO's initial and revised proposals. ATCO's revised proposal highlighted the current IT deficiencies and requirements and provided substantial information to substantiate the proposal. This was missing in the initial proposal.
- **Network growth expenditure ($12 million higher)**: The ERA's demand and growth connections forecast is higher than ATCO's revised proposal numbers.

The reasons for the ERA's final decision demand forecasts are set out in the demand attachment 2 accompanying the final decision. The higher demand forecast led to a higher network growth expenditure of $190 million.

- **Asset replacement expenditure (11.7 million higher)**: The ERA accepted the unit rate increases as they were based on up-to-date tender information from vendors. Additionally, three new programs proposed by ATCO were accepted.
- **Renewable gases expenditure (no change)**: ATCO proposed a lower number of renewable gas injection points and lower capital expenditure in the revised proposal. However, the ERA does not approve any renewable gas expenditure as these gases are not permitted under the relevant regulatory framework.
- **Other changes ($5.4 million higher):** Approval of new programs and approval of other items not approved in the draft decision given updated information, contributed to the remaining difference.

The ERA's draft decision capital expenditure is summarised in Table 4.2 below.

Table 4.2: ERA final decision AA6 forecast capital expenditure by regulatory asset category ($ million real at 31 December 2023)

Category	ATCO proposal	Draft decision	ATCO revised proposal	Final decision
Network sustaining	**271.6**	**218.1**	**252.1**	**235.2**
Asset Replacement	214.0	196.0	213.8	207.7
Asset Performance and Safety	57.6	22.1	38.3	27.5
Network growth	**157.4**	**177.9**	**151**	**190**
Customer Initiated	157.4	177.9	151	190
Demand Related	-	0	0	0
Information technology	**13.0***	**23.3**	**64**	**55.7**
Structures and equipment	**23.9**	**23.7**	**23.6**	**23.6**
Total	**465.8**	**443.1**	**490.7**	**504.5**

Source: ATCO, 2025-29 Plan, 1 September 2023, Table 10.3; ERA draft decision analysis; ERA final decision analysis.
**In the draft decision, the ERA moved ERP related operating expenditure to capital expenditure. On an equivalent basis, ATCO's AA6 proposal IT capital expenditure was $40.3 million.*

Summary of required amendments:

4.1 The opening capital base must be amended in the access arrangement information to reflect the values in Table 4.8.

4.2 The projected capital base must be amended in the access arrangement information to reflect the values in Table 4.14.

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.[5]

2. Under the regulatory framework, these definitions apply in the NGR:[6]

> **capital base**, in relation to a pipeline, means the capital value to be attributed, in accordance with [Part 4 of the National Gas Rules], to pipeline assets.
>
> **capital expenditure** means costs and expenditure of a capital nature incurred to provide, or in providing, pipeline services.
>
> **conforming capital expenditure** means capital expenditure that complies with the new capital expenditure criteria.
>
> **depreciation** means depreciation of the capital base.
>
> **new capital expenditure criteria** mean the criteria stated in rule 79.
>
> **non-conforming capital expenditure** means capital expenditure that does not comply with the new capital expenditure criteria.

3. The NGR requires the following capital base information to be included in the service provider's Access Arrangement Information (AAI).[7]

   - Information on how the capital base is arrived at; and if the access arrangement period commences at the end of an earlier access arrangement period, information that demonstrates how the capital base increased or decreased over the previous access arrangement period (rule 72(1)(b)).
   - Information on the projected capital base over the access arrangement period, including a forecast of conforming capital expenditure and a forecast of depreciation (rule 72(1)(c)).

4. Rules 77 to 86 of the NGR set out various provisions for the capital base, which cover:

   - How the opening capital base is to be determined (rule 77):
     - Where an access arrangement period follows directly on from an earlier access arrangement period, the opening capital base for the later access arrangement period is to be calculated as follows:[8]
       - The opening capital base at the start of the earlier access arrangement period adjusted for any differences between forecast and actual capital expenditure included in that opening capital base;

         plus: conforming capital expenditure made, or to be made, during the earlier access arrangement period;

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5 The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed November 2024).
At the time of this decision, *National Gas Rules – Western Australia version 12 (1 February 2024)* was in effect.

6 NGR, rule 69.

7 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.

8 NGR, rule 77(2).

plus: any amounts to be added for capital contributions, speculative capital expenditure or the reuse of redundant asses;

plus: the value of any extensions to the pipeline;

less: depreciation over the earlier access arrangement period;

less: redundant assets identified during the earlier access arrangement period;

less: the value of pipeline assets disposed of during the earlier access arrangement period.

- How the projected capital base is to be determined (rule 78):
  - The project capital base for an access arrangement period is to be determined as: the opening capital base;

    plus: forecast conforming capital expenditure for the period;

    less: forecast depreciation for the period and the forecast value of pipeline assets to be disposed of over the course of the period.
- The criteria for new capital expenditure (rule 79):
  - Conforming capital expenditure is 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 providing services; and is justifiable on one of the grounds stated in rule 79(2); and is properly allocated in accordance with rule 79(6).
  - Rule 79(2) states that capital expenditure is justifiable if it meets one or more of the following criteria:

    (a) the overall economic value of the expenditure is positive; or

    (b) the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or

    (c) the capital expenditure is necessary:

    (i) to maintain and improve the safety of services; or

    (ii) to maintain the integrity of services; or

    (iii) to comply with a regulatory obligation or requirement; or

    (iv) to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity); or

    (v) to contribute to meeting emissions reduction targets through the supply of services; or

    (d) the capital expenditure is an aggregate amount divisible into 2 parts, one referable to incremental services and the other referable to a purpose referred to in paragraph (c), and the former is justifiable under paragraph (b) and the latter under paragraph (c).
  - Rule 79(6) states that conforming capital expenditure must be for expenditure that is allocated between reference services; other services provided by

means of the covered pipeline; and other services provided by means of uncovered parts (if any) of the pipeline.[9]

- Provisions for the regulator to make an advanced determination about future capital expenditure (rule 80).
- An express provision that allows a service provider to make capital expenditure during an access arrangement period that is, in whole or in part, non-conforming capital expenditure (rule 81).
- Provisions for users to make capital contributions towards a service provider's capital expenditure (rule 82).
- Provisions for the service provider to be able to recover non-conforming capital expenditure by means of a surcharge (rule 83).
- The establishment of a speculative capital expenditure account (rule 84):
- To the extent that non-conforming capital expenditure is not recovered via a surcharge on users, the non-conforming expenditure may be added to a notional fund (the "speculative capital expenditure account") until it is determined that it complies with the criteria for conforming capital expenditure.
- Provisions for capital redundancy (rule 85).
- Provisions for the reuse of redundant assets (rule 86).

5. Further to the provisions covering the capital base, rule 71 of the NGR sets out the considerations that the regulator may and should have regard to when evaluating whether capital expenditure satisfies the governing criteria for new capital expenditure. 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.

9 The allocation of capital expenditure to these categories of services must be done in accordance with rule 93.

ERA draft decision

6. The ERA assessed ATCO's proposed actual and forecast capital expenditure for AA5 and AA6 in accordance with the NGR using a three-step framework:

- First, it considered whether the expenditure was justifiable under the various criteria allowed (that is, economic, incremental revenue, safety, integrity criteria).
- Second, it evaluated whether the expenditure would be undertaken by a prudent service provider acting efficiently, in accordance with accepted good industry practice to achieve the lowest sustainable cost of providing services consistent with the national gas objective.
- Third, it assessed whether the forecasts or estimates were arrived at on a reasonable basis and did they represent the best forecast or estimate possible in the circumstances.

7. For AA5, the ERA's draft decision approved forecast capital expenditure of $398.1 million. This was 3.8 per cent lower than ATCO's proposal of $413.7 million. The main changes in the draft decision from ATCO's proposal included:

- **Contingency expenditure**: ATCO included project contingencies for some network sustaining and IT projects for the remaining 2023 and 2024 years of the AA5 period. These were considered an over-estimation of the costs to undertake those projects and as a result, non-conforming with the NGR.
- **Project deliverability**: For a number of projects in the network sustaining and network growth categories, additional information was provided that moved a project from AA5 into AA6 or cast doubt about the ability of ATCO to undertake the work (as a result of additional planning or scoping) in the AA5 period and was removed accordingly.
- **Renewable gases expenditure**: Expenditure relating to ATCO's environmental, social and governance related projects, including expenditure on its Clean Energy Innovation Hub and for the blending of hydrogen was removed as this expenditure is not yet permitted under the legislative framework.

8. For AA6, the ERA's draft decision approved forecast capital expenditure of $443.1 million. This was 4.9 per cent lower than ATCO's proposal of $465.8 million. The main changes in the draft decision from ATCO's proposal included:

- **Contingency expenditure**: For routine expenditure programs within the asset replacement category, while the underlying cost estimate based on historical unit costs seemed a reasonable estimate, the addition of individual project contingencies was considered an over-estimation and are hence, non-conforming with the NGR.
- **Renewable gases expenditure**: ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals were not feasible under the economic regulatory framework and ATCO did not sufficiently demonstrate that these proposals (even if they were permitted under the legislative framework) were the most cost-efficient solutions that would be undertaken by a prudent gas service provider.
- **Information technology (IT) expenditure**: IT expenditure was reduced for the Enterprise Resource Planning (ERP) replacement as the option chosen was 30 per cent more expensive than the upgrade of the existing ERP. ATCO's consultant had considered the [redacted] as a better choice. A further change, adopted by the ERA, was to move the ERP-related Software as a

Service expenditure from operating expenditure to capital expenditure. Given the early stage of the project and the uncertainty associated with it, treating it as capital expenditure is appropriate and allows for an adjustment should the outcome be different to the draft decision approved expenditure. This adjustment is not permitted for operating expenditure, under the regulatory scheme.. If ATCO can demonstrate that a prudent service provider would incur more expenditure for this item, then it could be added to the capital base in the next access arrangement review.

- **Network growth expenditure**: Given the ERA's draft decision demand forecast was higher than ATCO's proposal, the ERA increased the amount ATCO forecast for growth capital expenditure. The ERA expected that ATCO would update its demand forecast in response to the draft decision and amend the growth capital expenditure to be consistent with that forecast. The ERA used the average connection costs for mains, meters and feeders to estimate the additional growth capital expenditure.

9. A projected closing capital base for AA6 (31 December 2029) was $1,685.5 million, which reflected the ERA's draft decision on the amount of conforming forecast capital expenditure and depreciation for AA6.

10. The ERA set out the following draft decision required amendments:

> 4.1 ATCO must amend its access arrangement information to revise its AA5 forecast capital expenditure to $398.1 million ($ real as at 31 December 2023).
>
> 4.2 ATCO must amend its access arrangement information to revise its AA6 forecast capital expenditure to $443.1 million ($ real as at 31 December 2023).

ATCO response to draft decision

11. ATCO revised its proposal for the opening capital base (1 January 2025) to $1,583.8 million and for the closing projected capital base (31 December 2029) to $1,616.1 million.

AA5 capital expenditure

12. ATCO did not accept the ERA's draft decision on AA5 capital expenditure and submitted a revised proposal of $400.1 million as set out below in Table 4.3.

Table 4.3: ATCO revised proposal AA5 capital expenditure ($ million, December 2023)

Category	ATCO proposal	ERA draft decision	ATCO revised proposal
Network sustaining	214.4	205.5	204.9
Network growth	143.0	141.7	145.1
Information technology	34.6	31.0	31.6
Structures and equipment	21.6	19.8	18.6
Total	**413.7**	**398.1**	**400.1**

Source: ERA Draft Decision and ATCO, 2025-29 Revised Plan, June 2024,

13. ATCO made the following changes in its revised proposal in response to the ERA's draft decision:

- Network sustaining: ATCO accepted many of the proposed amendments from the draft decision. ATCO did not accept adjustments to some projects that were adjusted based on historical average calculations and did not accept the removal of contingencies from the network sustaining projects.
- Network growth: While ATCO accepted the main reduction to network growth for commercial and industrial customers metersets, ATCO's network growth expenditure increased due to a higher volume of work undertaken in 2023.
- Information technology: ATCO has revised its IT program of works between submissions by adding in new projects and re-allocating funds away from previous projects to fund these. ATCO did not accept the ERA's draft decision to remove project contingencies for IT projects.
- Structures and equipment: ATCO has accepted in principle the ERA's draft decision adjustments for structures and equipment projects. ATCO has also included actual 2023 values and revised its 2024 values based on 2023 values. In doing so ATCO has proposed a structures and equipment value in its revised proposal of less than the ERA's draft decision.

AA6 capital expenditure

14. ATCO did not accept the ERA's draft decision on AA6 capital expenditure and submitted a revised proposal of $490.7 million (Table 4.4).

Table 4.4: ATCO revised proposal AA6 capital expenditure ($ million, December 2023)

Category	ATCO proposal	ERA draft decision	ATCO revised proposal
Network sustaining	271.6	218.1	252.1
Network growth	157.4	177.9	151.0
Information technology	13.0*	23.3	64.0
Structures and equipment	23.9	23.7	23.6
Total	**465.8**	**443.1**	**490.7**

Source: ATCO, 2025-29 Revised Plan, June 2024, p. xii.
** In the draft decision, the ERA moved ERP related operating expenditure to capital expenditure. On an equivalent basis, ATCO's AA6 proposal IT capital expenditure was $40.3 million.*

15. ATCO made the following material changes in its revised proposal in response to the ERA's draft decision:

- Network sustaining: ATCO removed contingencies, but increased contractor rates and materials costs based on updated information ($13.3 million). ATCO also included new programs ($7.2 million) and did not agree with some of the draft decision outcomes (for example: renewable gases expenditure of $9.6 million).
- Network growth: ATCO's lower demand/new connections in its revised proposal led to the lower expenditure (less $27 million).
- Information technology: ATCO accepted the draft decision and moved relevant IT expenditure from operating cost to capital expenditure. Following a comprehensive IT review, ATCO proposed higher ERP costs ($19 million); new programs ($17 million) and cyber security costs ($2.1 million) that led to most of the increase in the revised proposal.

Submissions to the ERA

16. Several submissions were received in response to the draft decision and revised proposal that are briefly summarised below.

- General comments: AGL and Alinta Energy supported the draft decision revisions as appropriate and wanted the ERA to apply appropriate scrutiny on the increased revised proposal capital expenditure.[10,11] The WA Economic Consumer Panel (ECP) noted the update on ATCO's tender proposals and wanted the ERA to seek updates, so the ERA would base decisions on the most up-to date information. The ECP was also not in support of ICT capitalisation citing accounting procedures. The ECP noted the contingency amounts and considered a case was not made for including it.[12]
- Network growth expenditure: The ECP did not support increased network growth expenditure, noting that ATCO was seeking accelerated depreciation that appeared to conflict with network growth. It suggested that the ERA consider lower demand and higher disconnection rates in its analysis.[13]
- Renewable gas expenditure: Alinta and Synergy did not support renewable gases expenditure, with Alinta stating that a broader range of issues needed to be considered beyond emissions reduction, and Synergy noting that the regulatory framework did not allow for the injection of renewable gases.[14,15] The WA council of social service (WACOSS) did not support ATCO's proposal as it felt electrification was a better way to reduce emissions.[16] The ECP supported the formation of a speculative capital expenditure account for renewable gases.[17] The Chamber of Minerals and Energy of Western Australia (CME) supported ATCO's proposal and suggested that regulatory flexibility was required to deal with renewable gases. It also supported ATCO's proposal for a cost pass through event.[18]

10 AGL, Response to the draft decision on ATCO AA, 08 July 24, p. 1.

11 Alinta Energy, Response to draft decision, 09 July 24. p. 13.

12 WA ECP, Response to draft decision, 09 July 24, pp. 28-30.

13 WA ECP, Response to draft decision, 09 July 24, p. 31.

14 Alinta Energy, Response to draft decision, 09 July 24. pp. 12,13.

15 Synergy, Response to draft decision, 09 July 24, p. 1.

16 WACOSS, Response to draft decision, 05 July 24, p. 1.

17 WA ECP, Response to draft decision, 09 July 24, pp. 29,30.

18 CME, Response to draft decision, 11 July 24, p. 1.

Final decision

17. The ERA has assessed ATCO's revised proposed opening and projected capital base for AA6. The sections below assess the conforming capital expenditure to be added to the opening and projected capital bases. Further information on the amount of depreciation is provided in attachment 6 of this final decision.

Opening capital base

18. ATCO's revised proposal included an opening capital base for AA6 of $1,584.1 million at 1 January 2025. Table 4.5 details ATCO's revised proposal opening capital base calculation.

Table 4.5: ATCO's closing capital base for AA5 ($ million real at 31 December 2023)

	2019	2020	2021	2022	2023	2024
Opening capital base 2019 before adjustment	1492.8					
Benefit from the difference between the estimated and actual 2019 capital expenditure	(1.8)					
Opening capital base	1,491.0	1,509.1	1,525.8	1,544.0	1,561.2	1,574.3
Plus: Capital expenditure	81.5	71.5	83.6	84.1	81.5	80.5
Less: Depreciation	62.3	54.0	64.8	66.5	68.0	70.7
Less: Asset disposals	1.0	0.7	0.6	0.4	0.3	0.0
Closing capital base	**1,509.1**	**1,525.8**	**1,544.0**	**1,561.2**	**1,574.3**	**1,584.1**

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, Table 14.6, p. 259.

19. Rule 79 of the NGR sets out the criteria of conforming capital expenditure. Under 79(1) of the NGR, the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services. Under rule 79(2)(a) to (c) of the NGR, conforming capital expenditure must also be justifiable on one of the following grounds:

- The overall economic value of the capital expenditure is positive.
- The present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure.
- The capital expenditure is necessary to:
  - Maintain and improve the safety of services.
  - Maintain the integrity of services.
  - Comply with a regulatory obligation or requirement.
  - Maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred.

- Contribute to meeting emissions reduction targets through the supply of services (applies to expenditure incurred after 1 February 2024).

20. ATCO submits that all the past capital expenditure satisfies NGR 79(1)(a) and is justifiable on the grounds stated in NGR 79(2).

21. The ERA has assessed ATCO's proposed opening capital base for the AA6 period pursuant to rules 77 and 79 of the NGR. This included:

- Determining ATCO's opening capital base for AA6, and assessing:
  - conforming capital expenditure in AA5
  - capital contributions
  - depreciation.
- Assessing ATCO's general method of calculating the capital base.

22. The ERA appointed EMCa to provide an independent assessment of whether ATCO's actual and proposed capital expenditure during AA5 was conforming capital expenditure that should be rolled into the opening capital base of AA6.

23. EMCa reviewed the information provided by ATCO to support the capital expenditure incurred (or to be incurred) in the AA5 period and sought further information or clarification where required. EMCa has assessed the extent to which the actual and estimated capital expenditure is likely to satisfy the capital expenditure criteria for the purposes of assisting the ERA in determining the level of conforming capital expenditure under the NGR.

24. The ERA's assessment showed that a total of $1.4 million is not conforming capital expenditure under rule 79 of the NGR, and should not be rolled into the opening capital base of AA6. The capital expenditure that is not conforming comprises:

- $1.1 million on network sustaining capital expenditure
- $0.3 million on IT capital expenditure.

Network sustaining capital expenditure

25. ATCO's revised proposal includes $204.9 million in capital expenditure for AA5 network sustaining projects. This is $0.6 million less than the ERA's draft decision and is $9.5 million less than ATCO's initial submission.

26. ATCO has accepted a number of the ERA's adjustments from the draft decision and has either adjusted the expenditure to the ERA's determined value or below in its revised proposal.

27. ATCO has not accepted the ERA's draft decision adjustment for five network sustaining projects or for the contingency adjustments in 2023 or 2024.

Network reinforcement - Atwell

28. In the draft decision, the ERA removed the expenditure relating to the network reinforcement project in Atwell as it was considered that the project would be subject to further planning and design and would likely be deferred beyond the AA5 period.

29. In its revised plan, ATCO has stated that the project will commence in 2024 and be completed in 2025. ATCO has reduced the expenditure to be incurred in 2024 from $0.5 million in its initial proposal to $0.3 million in its revised proposal.

30. EMCa has reviewed ATCO's business case, cost estimate and net present value (NPV) analysis and is satisfied that the project is required, the chosen option is prudent, the timing is appropriate, and the cost estimate is reasonable.

31. The ERA considers that ATCO has provided sufficient information in its revised proposal to justify the expenditure for the network reinforcement project in Atwell in AA5 of $0.3 million.

Vehicle protection – High Pressure Regulator (HPR) vehicle project

32. The ERA's draft decision reduced the estimated capital expenditure for vehicle protection HPR project by $0.2 million based on a lack of justification from ATCO for the significantly higher forecast costs in 2023 and 2024 than the historical expenditure in the years before.

33. In its revised proposal, ATCO has provided actual expenditure for 2023 and revised its 2024 expenditure. ATCO provided a compliance summary which included 2023 actual expenditure details regarding unit rates and volumes of work undertaken.

34. ATCO's unit cost incurred in 2023 was approximately 50 per cent higher than in the preceding three years due to the combined effect of increases in internal labour costs, contractor costs and materials costs.

35. EMCa has reviewed ATCO's compliance summary and expenditure and accepts that the revealed cost for 2023 is a reasonable basis for the 2024 estimate. EMCa was satisfied that the basis for the estimated cost for the remaining programs as whole is reasonable.

36. The ERA considers that the additional information provided by ATCO relating to the increase in unit rate costs is sufficient to justify the expenditure for vehicle protection HPR project of $0.4 million.

End of life replacement programs

37. In the draft decision, the ERA adjusted the expenditure relating to a number of end of life (EOL) replacement programs by $0.8 million. The adjustment was based on a lack of justification from ATCO for significantly higher forecast costs in the 2023 and 2024 than the historical expenditure in the years before.

38. In its revised proposal, ATCO has provided actual expenditure for 2023 and revised its 2024 expenditure. ATCO noted that the use of historical averages was not an appropriate measure for the EOL projects as the scope for a number of projects had changed in 2022. ATCO also stated that for EOL billing meters, this project was dependent on the number of meters to be replaced; and that the unit cost had changed as new meters needed to be purchased rather than using refurbished meters.

39. EMCa has reviewed ATCO's compliance summaries and additional information provided by ATCO. EMCa noted that the revealed cost for the programs in 2023 had been used to forecast 2024 costs, and that ATCO had addressed the concerns raised from the initial proposal. EMCa considered that the EOL program costs are now reasonable.

40. The ERA considers that the additional information provided by ATCO in its revised proposal for the EOL replacement programs, in particular around the change in unit rates due to scope changes and materials purchasing changes, is sufficient to justify the proposed AA5 expenditure.

Contingency adjustment

41. In the draft decision, the ERA determined a reduction of $3.6 million was required to remove 2023 and 2024 project contingency from network sustaining projects. This was made up of $1.8 million in each year.

42. In its revised proposal, ATCO has noted that the 2023 adjustment is no longer valid as the forecast costs have been replaced with actual costs in that year.

43. For the 2024 costs, ATCO has again included contingency on several network sustaining projects to a revised value of $1.1 million. ATCO notes that the total contingency within the 2024 forecast accounts for 2.6 per cent of the total annual sustaining forecast.

44. EMCa considered that, by June 2024 ATCO should have a good understanding of its 2024 network sustaining capital expenditure requirements and that a contingency allowance is unwarranted.

45. The ERA maintains its draft decision position and considers that contingency allowances are not conforming capital.

46. As a result, the ERA determines that a reduction of $1.1 million is required to the AA5 network sustaining cost category as this expenditure does not satisfy the conforming capital expenditure criteria under rule 79(1)(a) and 79(2)(c) of the NGR.

Network growth

47. ATCO's revised proposal included $145.1 million in capital expenditure for AA5 growth projects. This is $3.4 million more than the ERA's draft decision and $2.1 million more than ATCO's initial proposal.

48. In the draft decision, the ERA determined a reduction of $1.3 million from commercial and industrial customers metersets. ATCO accepted the ERA's determination and has reduced this project by an additional $0.5 million, bringing the total reduction for commercial and industrial customers metersets to $1.8 million.

49. In its revised proposal, ATCO included 2023 actual expenditure for its network growth projects, which for a number of projects was higher than forecast in its initial proposal.

50. Two projects that incurred significant increases in actual costs compared to forecast were:

- The New Service program, which involves connection of new domestic connections to new households following a request from a homeowner through their retailer.
- The Open Trench program, which involves installation of new gas mains and pre-laid service pipework in new subdivisions at the request of land developers.

51. ATCO noted that both of these programs are variable growth projects driven by customer demand. ATCO noted that for the SN3 New Services, there was a 28 per

cent increase in the number of services requested between the initial and revised proposals.

52. For the SNC Open Trench project, ATCO advised that there had also been a 28 per cent increase in the total volume (in metres) of pipework required. In addition, the contractor rate had increased due to an annual Consumer Price Index increase. This came into effect in the third quarter of 2023 and was not included in the forecasts.

53. Based on the information provided by ATCO, the ERA determines that the increase in AA5 costs for network growth AA5 capital expenditure is reasonable and is conforming capital expenditure.

Structures and equipment

54. ATCO's revised proposal includes expenditure of $18.6 million in AA5 for structures and equipment. This is $1.2 million less than the ERA's draft decision of $19.8 million and $3.0 million less than ATCO's initial proposal of $21.6 million.

55. In the draft decision, the ERA made a number of reductions to projects relating to depots and other building works and for projects relating to environmental, social and governance.

56. ATCO has accepted the ERA's draft decision determination to make amendments to the depots and other building works and to completely remove the expenditure relating to the environmental, social and governance projects.

57. All structures and equipment projects have been updated with 2023 actual expenditures, which also accounts for some of the additional reduction by ATCO in its revised proposal from the ERA's draft decision.

58. EMCa reviewed ATCO's revised proposal and was satisfied that the updated capital expenditure had been developed on a reasonable basis and that the proposed expenditure was reasonable.

Information technology

59. In its revised proposal ATCO has included expenditure of $31.6 million for IT in AA5. This is $0.6 million more than the ERA's draft decision of $31.0 million and is $3.0 million less than ATCO's initial proposal of $34.6 million.

60. The ERA's draft decision determined that $3.5 million of ATCO's 2023 and 2024 IT work was not conforming capital expenditure. This was made up of $1.1 million for the application renewal program; $1.8 million for the network digitisation and intelligence program; and $0.5 million for project contingency expenditure.

61. ATCO has not accepted the ERA's draft decision determination for AA5 information technology in its revised proposal. ATCO has also revised its IT program from its initial proposal and has included several new projects/programs by reallocating expenditure in response to the findings of an expert IT Current State Assessment and IT system downtime incidents in 2024.

New projects – GET FIT, data centre migration and other AA5 IT capital expenditure

62. ATCO has included a number of new projects in its revised proposal to the value of $2.8 million. These projects will be partially funded by redirecting 2024 budget of $1.8 million from the application renewal program (workforce management system upgrade) and $0.4 million from the network digitisation and intelligence program by discontinuing the program of digital works.

63. The GET FIT program was initiated to:

> Address the immediate system failure points and remediate the current mission critical systems to address availability and to ensure ATCO was managing its material risks as required of a critical infrastructure entity under the Security of Critical Infrastructure Act.[19]

64. The data centre migration project commenced in 2024 in response to the same security issues identified in the GET FIT program. ATCO notes the remaining expenditure identified as other new AA5 IT capital expenditure in the revised proposal is to address [redacted] earlier in 2024.

65. EMCa noted that it is common practice in IT management to reprioritise programs or components of programs in response to new information and updated risk assessments. EMCa considers that based on the information provided in ATCO's revised IT compliance summary, ATCO's response appears to be prudent, resulting in the changing mix of projects for 2024.

66. The ERA considers that ATCO's reprioritisation of projects is a sensible strategy based on the findings of its review and in response to the system downtime incidents. The ERA considers the expenditure on these projects to be conforming capital expenditure.

Application renewal program

67. The ERA reduced ATCO's application renewal program expenditure in the draft decision because of doubt about ATCO's capacity to deliver the program of work. ATCO did not accept the ERA's adjustment and noted in its revised proposal that it is confident in delivering the projects in the AA5 period.

68. The application renewal program is a multi-year program; and ATCO has updated its 2023 expenditure with an actual value of $6.4 million and revised its 2024 forecast expenditure to complete the program to $3.7 million, which is 33 per cent less than was proposed in its initial proposal.

69. As noted in the new projects section previously, the application renewal program also has a reduced scope with the deferral of the workforce management system upgrade.

70. EMCa reviewed ATCO's revised proposal and was satisfied that ATCO is likely to be able to deliver its new programs and the reduced scope of the application renewal program.

[19] ATCO, 2025-29 Revised Plan, Attachment 07.05.016.00 – IT Compliance Summary, 10/06/2024, p. 23.

71. The ERA considers that ATCO is likely to be in a position to complete the remaining works on the application and renewal program and considers the $23.6 million forecast for the project to be conforming capital expenditure.

Network digitisation and intelligence program

72. In the ERA's draft decision, $1.8 million was considered not to be conforming capital expenditure. This was for the "Agile BI Project (program of digital work)", which was to develop and implement business improvement initiatives. The ERA determined that initiatives such as these should be self-funded.

73. In its revised proposal, ATCO noted that in late 2023, the Network Digitisation and Intelligence program was deprioritised and allocated only $0.8 million to the Agile BI Program (program of digital works) with the remainder re-allocated to new projects set out above in the 'new projects' section.

74. The ERA, as it did in the draft decision, remains of the view that this program will result in future savings. However, for the final decision, the ERA considers that this project will deliver benefits over time and therefore meets the capital expenditure criteria in the NGR and should be included in the capital base. The ERA expects that ATCO will achieve operating expenditure savings during the AA6 period which should result in lower operating expenditure requirements in future access arrangement periods to the benefit of customers.

Project contingency expenditure

75. In the draft decision, the ERA removed contingency amounts from ATCO's 2023 and 2024 IT forecasts.

76. In its revised proposal, ATCO has included 2023 actual costs and has included a five per cent contingency allowance ($0.3 million) in its 2024 forecast expenditure. ATCO claims that the contingency allowance is reasonable because "IT projects experience cost pressures and price volatility due to complexity, resource availability, support arrangements and licence cost variation."

77. EMCa noted that ATCO's actual 2023 expenditure was less than the ERA's draft decision and that its 2024 estimate incorporates actual expenditure data from the first quarter of 2024. EMCa considers that, by June 2024 ATCO should have a good understanding of its 2024 IT expenditure and that a contingency allowance is unwarranted.

78. Consistent with the position taken in the draft decision, the ERA does not consider project contingencies to be conforming capital expenditure and proposes to remove the 2024 IT projects contingency of five per cent.

79. As a result, the ERA determines that a reduction of $0.3 million is required from the AA5 IT cost category as this expenditure does not satisfy the conforming capital expenditure criteria under rule 79(1)(a) and 79(2)(c) of the NGR.

ERA decision

80. The ERA has considered information provided by ATCO, public submissions and EMCa's report to determine the amount of capital expenditure that meets the requirements of the NGR.

81. Table 4.6 provides the ERA's draft decision amended conforming capital expenditure by cost driver and Table 4.7 provides the breakdown into asset classes which are used in the ERA's modelling of the capital base to depreciate over the respective assets' lives.

Table 4.6: ERA's final decision conforming capital expenditure for AA5 by cost driver ($ million real at 31 December 2023)

Cost Driver	2020	2021	2022	2023	2024	Total
Network sustaining	37.6	41.8	43.6	39.4	41.4	203.8
Network growth	26.3	29.9	30.0	32.0	26.9	145.1
Information technology	2.8	8.2	7.6	7.3	5.4	31.3
Structures & equipment	4.7	3.7	2.9	2.8	4.4	18.6
Total	**71.5**	**83.6**	**84.1**	**81.5**	**78.1**	**398.8**

Source: ERA analysis.

Table 4.7: ERA's final decision conforming capital expenditure for AA5 by asset class ($ million real at 31 December 2023)

Asset class	2020	2021	2022	2023	2024	Total
High pressure mains – steel	4.4	4.7	4.7	1.7	2.9	18.4
High pressure mains – polyethylene (PE)	0.7	(0.2)	0.0	-	-	0.5
Medium and low pressure mains	31.4	37.4	38.9	37.2	35.2	180.1
Regulators	1.6	1.2	1.7	1.6	1.9	8.0
Secondary gate stations	0.1	-	0.0	0.2	0.2	0.5
Buildings	0.4	0.3	0.4	0.7	0.3	2.0
Meter and services pipes	24.9	27.5	27.4	29.9	27.6	137.4
Equipment and vehicles	1.1	0.8	0.9	0.6	1.2	4.6
Vehicle	3.3	2.6	1.6	1.5	3.0	11.9
IT	2.8	8.2	7.6	7.3	5.4	31.3
Telemetry and monitoring	0.8	1.1	0.9	0.7	0.5	4.0
Land	-	-	-	-	-	-
Equity raising costs	-	-	-	-	-	-
Total	**71.5**	**83.6**	**84.1**	**81.5**	**78.1**	**398.8**

Source: ERA analysis.

82. Table 4.8 contains the ERA's closing capital base for AA5, showing the adjustment for the benefit ATCO received for actual 2019 (final year of AA4) being below the forecast

amount, and rolling forward the approved capital expenditure (noted above) less the forecast depreciation approved for the AA5 period.

Table 4.8: ERA's closing capital base for AA5 ($ million real at 31 December 2023)

	2019	2020	2021	2022	2023	2024
Opening capital base 2019 before adjustment	1,492.8					
Benefit from the difference between the estimated and actual 2019 capital expenditure	(1.7)					
Opening capital base	1,491.0	1,509.7	1,526.5	1,544.8	1,561.9	1,575.1
Plus: Capital expenditure	82.0	71.5	83.6	84.1	81.5	78.1
Less: Depreciation	64.1	54.0	64.8	66.5	68.0	70.7
Less: Asset disposals	1.0	0.7	0.6	0.4	0.3	-
Closing capital base	**1,509.7**	**1,526.5**	**1,544.8**	**1,561.9**	**1,575.1**	**1,582.5**

Source: ERA analysis.

Required Amendment

4.1 The opening capital base must be amended in the access arrangement information to reflect the values in Table 4.8.

Projected capital base

83. ATCO's revised proposal included a closing value for the projected capital base for AA6 of $1,616.1 million at 31 December 2029. Table 4.9 details ATCO's revised proposal opening capital base calculation.

Table 4.9: ATCO's closing capital base for AA6 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029
Opening capital base	1,583.8	1,598.6	1,622.4	1,623.5	1,621.3
Plus: Capital Expenditure	99.9	113.7	96.0	91.7	89.4
Less: Depreciation	85.1	89.9	94.9	93.9	94.6
Less: Asset disposals	-	-	-	-	-
Closing capital base	**1,598.6**	**1,622.4**	**1,623.5**	**1,621.3**	**1,616.1**

Source: ATCO revised proposal – Attachment 6.101A – Tariff Model

84. The ERA assessed ATCO's revised proposed capital expenditure forecast for AA6 in accordance with the NGR using a three-step framework:

- Consider whether the expenditure satisfies the prudent service provider test set out in rule 79(1)(a) of the NGR.
- Evaluate whether the expenditure is justifiable on the grounds set out in rule 79(2) of the NGR.
- Assess whether forecasts or estimates comply with rule 74(2) of the NGR.

85. The ERA considered information provided by ATCO, public submissions and EMCa's report to determine the amount of forecast capital expenditure that meets the requirements of the NGR.

Network sustaining capital expenditure

86. The network sustaining capital expenditure category consists of asset replacement expenditure and asset performance and safety expenditure. The draft decision network sustaining expenditure was $218.1 million. In its revised proposal, ATCO has proposed $252.1 million.

Asset replacement capital expenditure

87. The asset replacement capital expenditure consists of mains replacement, meter replacement and other asset replacement capital expenditures.

88. The draft decision expenditure for this category was $196 million. ATCO proposed $213.8 million in its revised proposal. ATCO removed contingency expenditure as required by the draft decision, however, it provided further information on proposed unit rates increases through updated contract details. Additionally, a new program to replace high pressure regulators was included. Further details are included below.

Mains replacement capital expenditure

89. In its initial proposal, ATCO identified 290 km of mains to be replaced in AA6, with an average of 58 km of mains replaced per year. A total of $141.7 million of network sustaining capital expenditure had been estimated for the mains replacement program for AA6.

90. In the draft decision, the ERA considered that the contingency amounts should be removed at the project/program level to help derive a capital expenditure forecast that is more likely to be set at the efficient level. The ERA concluded that $132.8 million of ATCO's proposed mains replacement capital expenditure for AA6 satisfied the criteria for conforming capital expenditure set out in rule 79 of the NGR and represented the best forecast of expenditure (rule 74 of the NGR).

91. In its revised proposal, ATCO has forecast $141.2 million for the mains replacement program, comprising the following programs:

- 2025-29 EOL Replacement – PVC mains ($138.8 million)
- 2025-29 EOL Replacement – PVC ad-hoc ($1.6 million)
- 2024 EOL Replacement – PVC mains ($0.8 million).

92. ATCO noted that mains replacement program is predominantly delivered by external contractors and that the contractor rates are established under the Mains and Services Contract, which will be going through a competitive tender in 2024, with new rates planned to be effective as of May 2025. It notes that historical rate reviews have resulted in a [redacted] increase above inflation and labour escalation rates. ATCO noted that the scope of the program has not changed, however, it suggested that the revised proposal expenditure is based on current unit rates with projected increase on contractor rates.[20]

93. ATCO advised that it uses long term contracts to support delivery of the sustaining capital expenditure program and that all of the contracts will be subject to a competitive tender from 2024 to 2027 to update the rates for the next three to five years. Based on "historical observations from past rate reviews", ATCO expects increases in the range of [redacted], as shown in the table below.

Figure 4.1: ATCO's proposed rate increases for the AA6 period – network sustaining

Contract name	Sustaining programs supported by the contract	Expected rate increase	Renewal date
Mains and Services Contract	Mains Replacement program (Mains risers & services)	[redacted]	2025
Meters and Regulators Activities Contract	Routine Meter Change (Domestic) program [38]		2025
PE Mains Panel	Mains Replacement program and other Network mains projects (e.g. mains extensions for Network Reinforcement)		2027
Fabrication Contract	EOL Meterset and Regulator Set Replacement programs		Late 2024
Traffic Management Panel	All programs requiring external traffic management		2025
Reinstatement Contract	Reinstatement services on all programs and network activities		2027

Source: ATCO, Attachment 7.101, Table 2-3

94. EMCa in its review noted that ATCO deferred the tender process from 2023 to 2024 "due to tight labour market conditions and high inflation" and deemed it prudent to wait for more favourable market conditions in the economic cycle.'[21]

95. EMCa asked ATCO to provide any update it may have from the proposed 2024 tender process to substantiate its proposed real cost increases.

20 ATCO, 2025-29 revised plan, June 2024, pp. 71, 72.

21 Which ATCO also refers to as Meter Replacement Contractor rates in response to IR110.

96. In response, ATCO advised that there was not yet any further information available from the tender process. ATCO elaborated on its evidence to support the expected contract rate increase of [redacted] in its response, which EMCa summarised as follows:[22]

[redacted]

97. Similarly on other contracts, including for meters and regulators activities, PE mains panels, fabrication, welding services, traffic management panel and reinstatement, EMCa considered the information provided as reasonable.[23]

98. Based on the information provided by ATCO and reviewed by EMCa, the ERA concludes that ATCO's proposed mains replacement capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Meter replacement capital expenditure

99. In its AA6 proposal, ATCO forecast approximately 110,116 domestic meters and 64 commercial meter replacements. Applying the domestic and commercial meter replacement unit rates, ATCO estimated that the meter replacement program will cost $29.1 million.

100. In the draft decision, EMCa considered that ATCO had a reasonable basis for considering replacement of domestic and commercial meters. EMCa considered the underlying cost estimate to be reasonable, but not the addition of the contingency amount. The removal of the contingency amounts resulted in the meter replacement expenditure reducing from $29.1 million to $25.7 million.

101. ATCO has amended the forecasts for the meter replacement program in its revised plan. The revised forecast for meter replacement capital expenditure increases from the draft decision of $25.7 million to $27.7 million. ATCO noted that the revised forecast for routine meter change is based on historical unit rates and was adjusted for anticipated increases in contractor rates and material costs.[24]

102. EMCa reviewed ATCO's proposed cost increase of [redacted] from 2027 onward and asked ATCO to provide any available supplementary information to support the cost increase. ATCO's response is summarised below:[25]

- The Reinstatement Services contract was established in the first quarter of 2024 after a competitive tender process.
- The contract includes different rates for various reinstatement activities based on different surface categories.

22 ATCO response to IR110.

23 EMCa, Final technical report, Oct 2024, pp. 22.23.

24 ATCO, 2025-29 revised plan, June 2024, p. 73.

25 ATCO response to EMCa 126.

103. The figure below shows the weighted rates for the prior and current contract based on the detailed costs in a spreadsheet provided by ATCO with its response which shows an estimated eight per cent increase.[26]

Figure 4.2: ATCO's weighted rate comparison

	Weighted rate ($/ unit)
Prior contract	[redacted]
Current Contract (established January 2024)	
% Increase	*8%*

Source: ATCO response to EMCa126

104. Based on the information provided by ATCO and reviewed by EMCa, the ERA concludes that ATCO's proposed meter replacement capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Other asset replacement capital expenditure

105. In its initial proposal, ATCO's other asset replacement program was estimated to cost $43.2 million. The programs in this section were:

- risers and services ($16.2 million)
- regulator sets and metering facilities ($12.5 million)
- telemetry equipment ($6.0 million)
- mechanical fittings ($4.7 million
- metallic mains ($1.8 million)
- isolation valves ($1.6 million)
- warning signs ($0.4 million).

106. In its draft decision, the ERA considered that while the underlying cost estimate of the program was reasonable, the addition of the contingency amount was not. The removal of the contingency amounts resulted in the expenditure reducing from $43.2 million to $37.5 million.

107. In its revised proposal, ATCO increased the cost of the other asset replacement program from $37.5 million to $42.8 million. The revised forecast comprises the following programs

- riser and Services ($16.8 million)
- regulator sets and metering facilities ($10.3 million)
- telemetry equipment ($5.4 million)
- mechanical fittings ($5.2 million)
- metallic Mains ($1.0 million)
- isolation Valves ($1.4 million)
- warning Signs ($0.4 million)
- carried over project scopes from 2024 ($2.4 million).

26 ATCO, reinstatement assessment.

Risers and services

108. The ERA's draft decision removed contingency applied to the forecast volume from the riser and services replacement program.

109. In its revised proposal, ATCO removed the contingency for the forecast volume. ATCO's revised forecast is based on historical unit rates determined from the average unit rate over the period 2021 to 2023. The volume of replacement has been revised to a three-year average.

110. The ERA concludes that ATCO's proposed risers and services capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Regulator sets and metering facilities

111. The ERA's draft decision removed contingency from the regulator sets and metering facilities replacement program.

112. In the revised proposal, ATCO notes that there are no changes to the scope but has revised the expenditure forecast for regulator sets and metering facilities replacement program. ATCO also noted that the replacement of facility equipment is part of this program; however, that it is not impacted by the anticipated contractor rate increases and the revised forecast also did not include contingency.

113. The ERA concludes that ATCO's proposed regulator sets and metering facilities capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Telemetry equipment

114. The ERA's draft decision removed contingency from the telemetry replacement program.

115. In its revised proposal, ATCO noted that there are no changes to the scope of proactively replacing 3,403 pieces of telemetry equipment that are approaching EOL. The forecast expenditure was derived from a bottom-up cost estimate that used the most recent component costs from suppliers, labour hours from previous installation work, and the forecast volume based on asset age and exclude contingency.

116. The ERA concludes that ATCO's proposed telemetry equipment capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Mechanical fittings

117. The ERA's draft decision removed contingency from the mechanical fittings program.

118. In its revised proposal, ATCO revised the scope and expenditure forecast for the replacement of mechanical fittings. The revised forecast is based on historical unit rates determined from the average unit rate over the period 2021 to 2023. The volume of replacement is also based on a three-year average. The revised expenditure for this program did not include contingency.

119. EMCa reviewed and found that while ATCO proposes a -1.5 per cent unit cost adjustment, it proposes 4.5 per cent increased volume of work. It calculates $5.2 million for the work but notes that there is an apparent error in its calculations as the unit cost

multiplied by volume as proposed is $4.9 million, requiring an adjustment of -$0.3 million.[27]

120. The ERA concludes that for the reasons highlighted above, an adjustment of $0.3 million is required for the mechanical fittings capital expenditure.

Isolation valves and warning signs

121. The ERA's draft decision removed contingency from the isolation valves and warning signs programs.

122. In its revised proposal, ATCO removed the contingency from the programs.

123. The ERA concludes in the final decision, that the isolation valves and warning signs capital expenditure for AA6 of $1.7 million satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Carry over programs

124. ATCO's revised proposal contains new line items for the 2024 carry over programs at a cost of $2.4 million. ATCO noted that the forecasts included contingency. The details are below:

Table 4.10: ATCO revised proposal, carry over programs, $ million 2023

Programs	Expenditure	Comments
2024 replacement of Mechanical Fittings	$0.2	There is no scope carried over from 2024 to 2025. The expenditure is related to project closeout cost.
2024 replacement of unprotected mains in the CBD	$0.8	This project involves working with the Perth CBD. A longer planning and construction period is required to address challenging factors such as dense infrastructure, space constraints, high traffic management. The project is forecast for 17 months starting in July 2024.
2024 replacement of meter facilities	$0.2	This deferment of expenditure is due to work delayed on two sites to accommodate customer and site requirements.
2024 warning signs	$0.004	Minor expenditure relating to project close out..
2024 replacement of Greenfield Bridge	$0.8	This project is planned to commence in September 2024 and to be completed in March 2025.
2024 replacement of EOL HPR	$0.3	A longer planning and design period is required due to limited suitable location, complex site (next to a railway) and long lead items. The project is forecast over 13 months starting in February 2024.
Total	**$2.4**	

Source: ATCO, revised proposal, p. 76.

[27] $5,276 x 184 units p.a. x 5 years.

125. EMCa reviewed the carry over programs expenditure and found that while there was a reasonable basis for the scope and cost of the expenditure, the contingency provision should not be required for the 2024 carry over program.

126. The ERA concludes that an adjustment of $0.3 million is required to remove the contingency provision.

Asset performance and safety

127. The asset performance and safety expenditure consists of enabling renewable gas expenditure, inline inspection expenditure, network reinforcement expenditure and other asset safety and performance expenditure.

128. The draft decision expenditure for this category was $22.1 million. ATCO has proposed $38.3 million in its revised proposal. The revised proposal increase is driven by the reinstatement of renewable gases expenditure, though at a lower level than initially proposed, reinstatement of gas metering and pipeline inspection equipment expenditures and the inclusion of a new program for meter infrastructure/location compliance. Further details are provided below.

Enabling renewable gas

129. The enabling renewable gas program relates to ATCO's proposed capital expenditure that would allow the network to accept and distribute renewable gases.

130. ATCO's proposal included constructing gate stations to inject renewable gases into the network, installing control systems to ensure accurate measurement of energy content, and replacing a small portion of meters with hydrogen compatible metering.

131. ATCO's proposed enabling renewable gas capital expenditure of $15.5 million included:

- Renewable gas injections ($14.3 million): construct six gate stations to inject around 100TJ to 200 TJ of renewable gas per site per year into the network, with two stations in 2025 and one per year over the remaining years of AA6.
- Network blending control systems ($0.6 million): expenditure for interconnection management controls to ensure a system accurately measures delivered energy in the network with dynamic renewable gas blends.
- Meter changes for hydrogen blending ($0.6 million): Replacement of a small proportion of metering assets in parts of the network where renewable gas blending will occur.

132. In its draft decision, the ERA noted that the updated national gas objective was adopted in Western Australia on 25 January 2024 and that the Australian Energy Market Commission (AEMC) has since published the Natural Gas Amendment (Harmonising the national energy rules with the updated national energy objectives) Rule 2024.[28]

133. While these changes supported the incorporation of emissions reduction by allowing network and pipeline operators to propose expenditure for activities that would contribute to achieving emissions reduction targets, other laws such as the "other gases legislation" were yet been passed in Western Australia[29]. Without this, the regulatory

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[28] Government of Western Australia, 'National Gas Law: Western Australian adopts amended National Gas Objective to include emission reductions' (online) (accessed November 2024).

[29] Australian Government, 'Extending the national gas regulatory framework to hydrogen and renewable gases' (online) (accessed November 2024).

framework has not been expanded to cover biomethane or other renewable gases and as such none of the renewable gas expenditure was allowed under the NGR.

134. In its revised proposal, ATCO has proposed $9.6 million comprising:[30]

- One injection point for unaccounted for gas (UAFG) ($3.5 million): This investment is for the construction of a gate station (injection point) for renewable gas to be injected into the network. The construction of this new gate station will enable ATCO to purchase biomethane for a portion of its UAFG.
- Two injection points for customer injection ($6.2 million): This expenditure is to construct two gate stations (injection points) for renewable gas to be injected into the network. This is to meet the expected availability of, and demand for, biomethane and enable biomethane to be injected into the gas distribution system to ultimately be available for end users to purchase.

135. As outlined in the stakeholder summary, most submissions did not support renewable gas expenditure, although the CME did support the proposal and encouraged regulatory flexibility.

136. The ERA notes the reasons outlined in paragraphs 133 and 134 above and given that the “other gases legislation” has not yet been passed in Western Australia, does not approve the renewable gases expenditure.

In-line inspection

137. The investment driver for this capital expenditure is to ensure the safe operation of the high-pressure pipeline infrastructure and to meet regulatory requirements (Australian Standard 2885.3) by conducting regular and thorough integrity inspections.[31]

138. ATCO proposed $24.9 million to modify five pipelines and install facilities to enable inline inspection (ILI) of these pipelines, which provides data for any mitigation activities.

139. In the draft decision, the ERA noted that ATCO had, since its initial proposal, noted the likelihood of deferring the pigging infrastructure work proposed for Bunbury pipelines (HP104, HP089, and HP047) from AA5 to AA6. The pipelines have a maximum allowable operating pressure rating that requires in-line inspection or some other means to demonstrate compliance to AS2885 to assure ongoing safe operation. However, the pipelines were operated at pressure of 1850kPa, which did not require in-line inspection.[32]

140. The removal of the expenditure related to the Bunbury pipelines and the contingency amount for the other pipeline expenditure resulted in the inline inspection expenditure reducing from $24.9 million to $13 million in the draft decision.

141. In the revised proposal, ATCO has removed all expenditure related to Bunbury pipelines. On the pigging facilities, ATCO has removed the contingency but retained a five per cent increase in contractor rates. ATCO noted that this accounts for the anticipated rate increase for fabrication when the fabrication contract is renewed in

[30] ATCO, 2025-29 revised plan, June 2024, p. 78.

[31] ATCO is obligated to comply with AS 2885.3, a result of regulations 18, 20,27 and 37 of the Gas Standards (Gas Supply and System Safety) Regulations 2000.

[32] ERA, Draft decision Attachment 4, April 2024, p. 44.

September 2024. The in-line inspection expenditure in the revised proposal is $13.8 million. EMCa considers the revised cost to be reasonable.[33]

142. The ERA concludes that $13.8 million of ATCO's proposed in-line inspections capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Network reinforcement

143. The network reinforcement expenditure ensures adequate capacity to deliver gas safely to customers.

144. In its proposal, ATCO proposed $2 million expenditure for reinforcement projects in Secret Harbour, Inglewood and Pearsall.

145. In the draft decision, the ERA noted that ATCO has not provided a business case to support inclusion of the Secret Harbour project in the capital expenditure forecast. In the absence of a business case and cost estimate, there was insufficient justification for the proposed $1.3 million capital expenditure in 2025. The ERA also did not approve the contingency expenditure associated with the remaining program.[34]

146. The ERA concluded in the draft decision that $0.6 million of ATCO's proposed network reinforcement capital expenditure for AA6 satisfied the criteria for conforming capital expenditure set out in rule 79 of the NGR.

147. In its revised proposal, ATCO assessed the requirement to reinforce Secret Harbour, noted that it was likely that a merger with another network would happen within a couple of years and on that basis, removed the capital expenditure.[35] ATCO also removed contingency from the remaining network reinforcement projects and included carry-over expenditure for network reinforcement in Atwell. The Atwell work begins in 2024 and is planned for completion in 2025. ATCO has proposed $0.9 million as network reinforcement expenditure in its revised proposal. EMCa considered the revised cost as reasonable given that, at the draft decision, the cost of Inglewood and Pearsall network reinforcement, other than contingency was considered reasonable.[36]

148. The ERA concludes that ATCO's network reinforcement capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Other performance and safety programs

149. ATCO proposed $15.1 million to cover the other performance and safety programs listed below:

- "step and touch" hazard mitigation ($7.5 million)
- vehicle protection ($1.9 million)
- corrosion protection ($1.4 million)
- corrosion protection monitoring ($0.7 million)
- pressure monitoring devices ($0.8 million)

33 EMCa, Technical report, Oct 2024, p. 26.

34 ERA, Draft decision Attachment 4, April 2024, p. 45.

35 ATCO, Revised Plan, June 2024, p. 86.

36 EMCa, Technical report, Oct 2024, p. 26. ERA draft decision Attachment 4.

- gate station metering ($0.8 million)
- other performance programs ($2.0 million).

150. In the draft decision, the ERA removed corrosion protection monitoring, gate station metering, other performance programs (Picarro and confined space); reduced the scope in pressure monitoring devices and vehicle protection; and removed contingency from the remaining performance and safety programs.

151. The ERA concluded in its AA6 draft decision that $8.5 million of ATCO's proposed other asset performance capital expenditure satisfied the criteria for conforming capital expenditure set out in rule 79 of the NGR.[37]

152. In its revised proposal, ATCO accepted the ERA's amendment to remove corrosion protection monitoring from the forecast, accepted the reduction of scope for pressure monitoring devices and the removal of contingency from the remaining performance and safety programs. ATCO did not accept the ERA's draft decision to disallow expenditure for reduced scope for vehicle protection, gate station metering, Picarro leak survey device, and the confined space program.

153. ATCO reforecast the other performance and safety program capital expenditure and increased it from the draft decision of $8.5 million to $11.2 million.

154. The revised forecast comprised the following programs:

- step and touch hazard mitigation ($5.9 million)
- vehicle protection ($1.0 million)
- corrosion protection ($1.3 million)
- pressure monitoring devices ($0.5 million)
- gate station metering ($0.6 million)
- Picarro device ($1.9 million)
- confined space project ($0.1 million).

Step and touch hazard mitigation program and corrosion protection program

155. In the draft decision, the ERA removed contingency from the step and touch hazard mitigation and corrosion protection programs.

156. In its revised proposal, ATCO removed the contingency from both these programs.

157. Given that the program and cost, other than contingency was considered reasonable at the draft decision, the ERA concludes that the step and touch hazard mitigation and corrosion protection programs capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Vehicle protection

158. In the draft decision, the ERA reduced the scope of the vehicle protection program (installation of crash barriers) from 46 sites to 13 sites and reduced the unit rates to a three-year historical average (2020 to 2022).

[37] ERA, Draft decision Attachment 4, April 2024, p. 50.

159. In its revised proposal, ATCO revised the forecast scope after the completion of a detailed assessment. The revised scope reduced from 46 sites to 31 sites, with a capital expenditure of $1.0 million.

160. ATCO noted that the 31 sites were high risk rated as requiring protection based on an assessment of safety factors such as traffic speed, alignment to traffic, distance from traffic and physical protection. Also, that the forecast expenditure is derived from using 2023 actual cost for internal labour and a two-year average for contractor costs.[38]

161. EMCa reviewed the revised cost and finds that it is reasonable.

162. The ERA concludes that the vehicle protection capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Pressure monitoring devices

163. In the draft decision, the ERA reduced the scope from 50 sites to 30 sites and removed contingency from the expenditure forecast for the remaining scope.

164. In the revised proposal, ATCO accepted the ERA's draft decision to reduce the volume from 50 to 30 pressure monitoring devices. The revised forecast to install 30 pressure monitoring devices for monitoring weak pressure points in the network and excluding contingency is $0.5 million. Given that the draft decision was complied with, and the resultant cost is lower than the initial proposal, EMCa considered that the cost is reasonable.

165. The ERA concludes in the final decision, that the pressure monitoring devices capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Gate station monitoring

166. In the draft decision, the ERA removed expenditure related to ATCO's gate station metering project from the expenditure forecast. The ERA highlighted that gate station owners, not ATCO, are responsible for metered flow data accuracy. The ERA also rejected ATCO's claim of severe reputational risk from inaccurate meter data from a third-party gate station and considered that gate station metering inaccuracies should be recoverable from the gate station owners.

167. In the revised proposal, ATCO accepted the ERA's draft decision and provided a revised forecast capital expenditure of $0.6 million to install three ultrasonic meters downstream of the third-party owned gate stations. While ATCO agreed that gate station owners are responsible for the data, it noted that it is not possible to identify these metering inaccuracies without these additional meters to provide data accuracy validation. ATCO suggests that it is in the best interest of end users for there to be metering downstream to verify the accuracy of metered flow data as it impacts the areas of compliance reporting, operational efficiency and reputation.[39]

168. ATCO proposed a forecast expenditure of $0.6 million to install three ultrasonic meters downstream of the third-party owned gate stations and noted that the cost estimate is based on a quote from the vendor for the material and bottom-up build for the installation.

[38] ATCO, 2025-29 revised plan, June 2024, p. 89.

[39] ATCO, 2025-29 revised plan, June 2024, p. 90.

169. The ERA has considered ATCO's revised proposal justification and EMCa's review which considered that ATCO has not sufficiently addressed the feedback provided in the draft decision. Without demonstration by ATCO that there is likely to be a net benefit to end-use customers after cost recovery of any impacts from the gate station owners, the proposed expenditure is not sufficiently justified.

170. The ERA concludes in the final decision that ATCO's gate station monitoring capital expenditure for AA6 does not satisfy the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Picarro device

171. In the draft decision, the ERA removed expenditure related to the Picarro project from the expenditure forecast, noted that while the initiative may have merit, there was a lack sufficient information provided for assessment.

172. In the revised proposal, ATCO provided the business case for the project and submitted a forecast capex of $1.9 million to purchase one Picarro unit to enhance leak survey, leak measurement, and network safety as well as to refine prioritisation of mains replacement programs.

173. ATCO noted that one of the primary advantages of the Picarro technology is its superior capability in detecting gas leaks. The system's high sensitivity and precision ensure that even minor leaks are identified quickly, which is essential for maintaining the safety and reliability of the gas distribution network. ATCO also noted the Department of Energy, Mines, Industry Regulation and Safety's Building and Energy Division support for ATCO's proposed Picarro program.[40]

174. The ERA, having reviewed the revised proposal information and EMCa's review, concludes in the final decision, that the Picarro device capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Confined space

175. In the draft decision, the ERA removed $0.1 million of expenditure related to the remediation of confined spaces from the expenditure forecast, citing insufficient information provided for assessment.

176. In the revised proposal, ATCO has updated the expenditure forecast from $0.2 million to $0.1 million to purchase safety equipment, noting that the equipment would ensure personnel are equipped to manage confined space entry requirements and meet Health, Safety and Environment (HSE) standards. ATCO also provided a business case for this expenditure.[41]

177. The ERA having reviewed the revised proposal information and its consultant's review, concludes that the confined space capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

New program: End-of-life replacement – High pressure regulators

178. ATCO in the revised proposal included a new program for the EOL replacement of high-pressure regulators (HPR). ATCO proposed replacing four HPRs between 2025 and 2029 that would have reached their end of life. ATCO noted that these HPRs have

[40] ATCO, 2025-29 revised plan, June 2024, pp. 91, 92.

[41] ATCO, 2025-29 revised plan, June 2024, pp. 92, 93.

deteriorated to a condition where maintenance is no longer effective, and that their components are obsolete and no longer in production.

179. ATCO proposed $2.1 million for the replacement of four HPRs. ATCO noted that the project cost was calculated using actual expenditure in respect of similar projects with a projected increase of [redacted] in contractor rates.

180. ERA's technical consultant, EMCa, reviewed this expenditure and noted that ATCO identified 5 options to address this risk.[42]

- Option 1 – Do nothing (run to failure).
- Option 2 – Replace 4 HPRs that meet the EOL replacement criteria (recommended by ATCO).
- Option 3 – Partial repair of faulty components.
- Option 4 – Increase frequency of routine maintenance and repair as required.
- Option 5 – Decommission the HPRs.

181. EMCa considered the reasons for replacing two of the HPRs compelling based on the evidence presented in the business case. However, EMCa considered that ATCO had not presented sufficient compelling condition information (for example, statistical information and/or cost-benefit analysis) to demonstrate that it is prudent to replace the other two HPR's in the next regulatory period. Specifically:

- That there appeared to be no condition-based reason to expect that there is an elevated likelihood of failure of one HPR in the next five years and ATCO has not identified the consequence of failure in monetary terms. The other HPR has medium level corrosion and whilst this may deteriorate over the next five years, ATCO did not provide compelling information to confirm that the rate of deterioration could not be slowed or stopped with targeted maintenance.
- It was considered that should the HPR's fail before replacement, spare parts liberated from replacement of other HPR's can be used to restore functionality.[43]

182. The ERA considered all the information and concludes that the capital expenditure associated with two of the four HPR's satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR. This results in a 50 per cent adjustment of the capital expenditure to $1 million.

New program: Facility upgrade – Meter compliance

183. ATCO in its revised proposal proposed a new program for meter compliance expenditure. ATCO noted that non-compliant meter locations are flagged by the field crews during operational works such as replacement works, fault works and routine inspections. These sites are reported through field reports to the meter compliance team, prompting subsequent site visits for further investigation. A risk assessment is conducted and reviewed based on non-compliance categories and location types before the rectification work is included in the program scope.

184. ATCO proposed $2.7 million for the upgrade of meters to ensure compliance to Australian Standards AS/NZS 4645, AS/NZS 5601 and AS/NZS 60079. ATCO noted

[42] ATCO, 07.110.00 - End of Life (EOL) Replacement - HPR - Business Case, Table 2.1.

[43] EMCa, Final technical report, Oct 2024, pp. 27,28.

that the project cost is calculated using AA5 actual expenditure for the meter compliance program.

185. ERA's technical consultant, EMCa, reviewed this expenditure and noted ATCO's comment that the program was not included in the Initial Plan due to timing (the scope and risk review had not been finalised). The risk review as part of 2023 Natural Gas Network Formal Safety Assessment was completed in July 2023 with detailed HAZID review in early 2024 to support the business case.[44]

186. EMCa reviewed the four options and concluded that ATCO's recommended option of proactive rectification of non-compliant gas meter installations was appropriate. EMCa also stated that the expenditure for rectifying non-compliant infrastructure was necessary and different from the expenditure to replace the meters.

187. ATCO used the five-year historical non-compliant meter replacement volumes and unit costs to forecast its AA6 expenditure that EMCa, after cross checking with ATCO, found reasonable.[45]

188. The ERA having considered the revised proposal information and its consultant's review, concludes that the Facility upgrade – meter compliance capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Network growth

189. ATCO's proposed network growth expenditure is driven by the number of new customers expected to connect to the network in AA6.

190. Based on the demand forecast in the proposal, ATCO expected to connect:

- 274 new commercial (B1) customer connections.
- 1,239 new commercial (B2) customer connections.
- 66,265 new domestic (B3) customer connections with the associated new services, mains extension and new domestic meters.

No new connections were forecast for A1 and A2.

191. Based on the connections forecast, ATCO proposed an expenditure of $157.5 million (net of capital contribution) for AA6 network growth expenditure.

192. In the draft decision, the ERA's demand forecast was higher than ATCO's proposal. As such, the ERA increased the amount ATCO forecast for growth capital expenditure. The ERA used the average connection costs for mains, meters and feeders to estimate the growth capital expenditure of $177.9 million.

193. The ERA also noted in the draft decision that the NPV results for the B2 and B3 greenfield capital expenditure was very sensitive to negative variances, in which the positive net present value is more than halved for just a 10 per cent increase in costs and reduced by 80 per cent in response to a 10 per cent reduction in demand. This indicated that the economic case for ongoing connections is not particularly robust and if there are unfavourable variances, ATCO may need capital contributions or higher tariffs to satisfy NGR 79(2)(b).

44 ATCO response to IR113.

45 EMCa, Final technical report, Oct 2024, pp. 29,30.

194. In the revised proposal, ATCO, used its revised demand forecast, forecasts connecting:

- 1 new industrial (A1) customer connection,
- 214 new commercial (B1) customer connections,
- 1,280 new small commercial (B2) customer connections,
- 64,664 new domestic (B3) customer connections with the associated mains extension and new gas meters and services.

195. Based on its updated connection costs and the usage of current economic parameters, ATCO has provided the revised NGR 79 test results that demonstrates per ATCO, that the revised NPV for the B2 and B3 greenfield capital expenditure is positive and remains positive under a range of scenarios.

Figure 4.3: NGR 79 tests – summary of results ($ 31 Dec 2024)

NGR 79(2)(B) TEST	CAPEX ($M)	NPV ($M)	PAYBACK PERIOD	NPV SENSITIVITIES		
				CAPEX +10%	OPEX +10%	DEMAND -10%
B2 & B3 greenfield capex	137.9	14.3	22	2.4	8.6	-4.2
Commercial (B2) brownfield capex	2.5	2.9	11	2.7	2.7	2.2

Source: ATCO, 2025-29 revised plan, June 2024, p. 99.

196. ATCO noted that the NPV is sensitive to negative variances and that its practice is to re-test the NPV outcomes each year, and that should the NPV result show a negative amount, ATCO would need to consider capital contributions to satisfy NGR 79(2)(b) in the future.

197. ATCO also noted that the NPV assessment does not include residential brownfield capex because this is covered by ATCO's distribution licence obligation to offer to connect certain residential customers within the licence area and therefore meets NGR 79 irrespective of the NPV.

198. ERA's technical consultant reviewed the growth connections unit rates and found that ATCO's approach of taking the most recent three-year average of each connection activity as the basis for the forecast AA6 expenditure as reasonable because the average is a fair representation of the fluctuations experienced.[46]

199. The ERA's demand forecast is higher than ATCO's revised proposal and underpins the higher B2 and B3 growth connections.[47] Using the ERA's growth connections forecast and ATCO's unit rates, results in an increased growth capital expenditure. The ERA used the average connection costs for mains, meters and feeders to decide that the growth capital expenditure of $177.9 million satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR. The ERA notes ATCO's comment in paragraph 196 and expects ATCO to follow that principle.

46 EMCa, Final technical report, Oct 2024, p. 32.

47 ERA, Final decision – attachment 2 (demand), Nov 2024.

Information technology

200. ATCO noted that IT capital expenditure will enable it to efficiently manage gas network assets through their lifecycles, enhance information access opportunities for customers, and enable the workforce to retrieve relevant information. ATCO proposed an AA6 forecast IT capital expenditure of $13.0 million categorised into:

- IT capital expenditure – Enterprise Resource Planning (ERP) replacement and IT sustainability programs ($6.7 million).
- IT upgrades – HR and payroll upgrades, Geographical Information System (GIS) upgrades and WebMethods upgrades ($3.3 million).
- IT business capability improvements – continuous improvement program, digital improvement program and data and analytics program ($2.5 million).

ERP replacement and IT sustainability expenditure

201. In the draft decision for ERP replacement, the ERA considered that while it is reasonable for ATCO to replace its current ERP within the AA6 period, it should remove the 30 per cent premium included for the best in breed option and the contingency allowance. This resulted in an adjusted capital cost of $2.5 million.

202. A further change, adopted by the ERA, was to move the ERP-related expenditure from operating expenditure to capital expenditure. While ATCO's rationale for moving the ERP expenditure to operating expenditure was noted as complying with the accounting rules, the uncertainty associated with this expenditure, given the early stages the project is in, necessitated the move to capital expenditure given the regulatory framework's treatment of operating expenditure. The move to capital expenditure allows the clawback of expenditure should the resultant expenditure outcome be lower than the draft decision approved expenditure. As such, the $17.6 million draft decision approved operating expenditure for ERP replacement, was moved into the AA6 forecast capital expenditure.

203. As a result, the draft decision ERP replacement expenditure was $20.1 million. The IT sustainability expenditure was removed in the draft decision in line with the decision to disallow renewable gases expenditure.

IT upgrades

204. On the IT upgrades, the draft decision allowed the GIS upgrades and WebMethods upgrade project at a cost of $3.2 million.

IT business capability improvements

205. In the draft decision, the ERA removed the IT business capability programs of $2.9 million as there was insufficient justification and programs such as these through their benefits should be self-funding.

206. As a result of the decisions above the draft decision AA6 capital expenditure for IT was $23.3 million of which $20.1 million was for ERP replacement and $3.2 million was for IT upgrades.

207. In the revised plan, ATCO has proposed a revised AA6 forecast of $64 million categorised in the table below.

Table 4.11: Summary of technology program (revised proposal, $2023 million)

PROGRAMS	CATEGORY	KEY PROGRAM DRIVER	AA6 COST
ERP Replacement	Revised	End-of-life: Current program SAP will reach “end of support” in 2027	$39.3
Cyber Security	Revised	Legislative Obligation – meeting our SOCI obligations to manage material risks. [redacted] While we accept the ERA’s findings in the Draft Decision that the original business case focused on achieving SP-3 without a legislative obligation, with ATCO’s [redacted] posture and the CIRMP requirement to manage material risks for critical infrastructure entities, it is mandatory to safeguard ATCO’s critical infrastructure against escalating threats.	$2.1
ESG Reporting System	Revised	**Legislative Obligation** Mandatory climate disclosures as part of sustainability reporting requirements aligned to changes in the *Corporations Act 2001* (Cth) from January 2025. **ATCO Group Sustainability Reporting requirements.** Globally, we disclose sustainability (including climate) related information, that we collect as part of our legislative and regulatory reporting obligations, which is published in an annual Sustainability Report. **ATCO compliance reporting requirements.** We are subject to several regulatory compliance activities related to operational, environmental, social and governance requirements (e.g., National Greenhouse Emission and Energy Reporting).	$0.5
Payroll Upgrade	Revised	**Legislative Obligation** – meeting our Industrial Relations (IR) obligations. **Payroll Compliance** – payroll compliance with State and Federal legislation (including State Revenue and Australian Tax Office). It is a criminal offence from 1 January 2025 for employers to intentionally underpay employees.	$0.5

PROGRAMS	CATEGORY	KEY PROGRAM DRIVER	AA6 COST
Continuous Compliance	Revised and Renamed (from Continuous Improvement)	**Operation compliance** - improvement to compliance related work items for ATCO to meet regulatory compliance and safety obligations, as well as to maintain reliability and security of the ATCO network.	$0.4
Data Enablement	New	**Program Dependencies** – Enterprise data management and enterprise data governance. Cornerstone for ERP Replacement program. Data integrity and Accuracy – Ensure data accuracy, security and quality in the collation and creation of Regulatory reports including ERA Compliance reporting, ERA Performance reporting, annual AEMO Negative Assurance Audit and Regulatory Information Notice (RIN).	$6.3
Technology Lifecycle	New	**Legislative Obligation** – meeting our Security of Critical Infrastructure (SOCI) obligations for critical assets. **End-of-life**: multiple technology assets will reach “end of support” in 2025 – 2029. **Service Level Agreement Fulfillment (SLA)** - to meet IT Service SLAs to ensure regulatory reporting obligations can be met.	$11.9
GIS Upgrade	No Change	**Legislative Obligation** – meeting our SOCI obligations. **End-of-life** – Product lifecycle support policy	$2.00
WebMethods Upgrade	No Change	**Legislative Obligation** – meeting our SOCI obligations. **End-of-life** – update to vendor support	$1.1
IT Digital Program	Removed from AA6 program	-	-
IT Data Analytics Project	Removed from AA6 program	-	-

Source: ATCO, revised proposal, July 2024, p. 102.

ERP replacement

208. In the revised proposal, ATCO accepted the ERA's draft decision to select a single ERP core solution and has selected [redacted] as its [redacted] program. ATCO suggests that the [redacted] is required as the [redacted] does not offer the full level of capabilities required and integrated functions, such as plant maintenance is provided through the [redacted].

209. ATCO's revised capital expenditure forecast for the ERP Replacement and an asset management program is $39.3 million. ATCO noted that the revised capital expenditure is based on a detailed bottom-up approach to build the cost profile and phasing the implementation to mitigate operational risks. The costs include assistance provided by a systems integration partner. This cost represented an increase of $19.2 million over the draft decision.

210. While ATCO accepted the ERA's position that it should base the replacement on [redacted], the revised estimate is almost double the estimate in its initial plan. The scope of work increased considerably in the revised version, because (i) ATCO apparently left out many project implementation tasks and costs from its initial estimate, and (ii) it has added a [redacted] to its preferred option.

211. To develop their recommended solution, ATCO analysed options as highlighted below:[48]

[48] ATCO, IT ERP replacement program business case, May 2024, p. 15.

Figure 4.4: ATCO options evaluated

[redacted]

Source: ERA, Draft decision Attachment 4, April 2024, pp. 67, 68.

212. ERA's technical consultant, EMCa focussed on the prudency of the selection of the [redacted] program and the reasonableness of the proposed cost.

213. ATCO's justification for the [redacted] is that the [redacted] capabilities required "and additional investment would be required." In EMCa's experience, it is not uncommon for a [redacted] and as such, EMCa considered the Option 3 as reasonable.[49]

214. Following EMCA's inquiry regarding the estimated costs, ATCO provided the following:

- A detailed cost estimate, which provided a link between the cost estimate provided with ATCO's initial plan and the detailed cost build-up for the options presented.[50]
- A copy of a letter from its consultant that describes its approach to developing the view regarding the ERP replacement project in the report provided with ATCO's

49 EMCa final technical report, Oct 2024, pp. 39,40.

50 ATCO detailed project costing ERP EMCa 117

initial plan (and repeating its view that ATCO's 15 per cent contingency provision is excessive).[51]

- A description of ATCO's attempts at benchmarking its project and project costing "through engagement of industry experts and Industry Advisory organisations, such as Gartner, KPMG, IBM, Rimini Street." Its conclusion was that benchmarking was not feasible because of the "differences in IT estates (complexities, integrations, legacy systems), inability to assess comparative program scopes, prevailing market conditions at the time and the scale of risk to an organisation in undertaking an ERP Replacement."
- An explanation of the drivers for the cost increase, which are summarised as:
  - A more detailed examination of the resources and time required for implementation, including extra project management, migration (training and change management), backfilling of internal resources, and governance.
  - "Intense" competition for the specialist resources required given that the same resource pool will be sought globally given Gartner's advice that [redacted] of companies globally [redacted]

215. EMCa concluded that the cost estimate provided with the initial plan that was used as the basis for the assessment included with the draft decision was not likely to reflect the total cost of successfully implementing a project of the complexity and scale required. This reflected a poorly developed initial estimate that omitted or under-estimated significant aspects of scope.[52]

216. EMCa considered that other than the contingency, the revised cost estimate is reasonable.

217. The ERA has considered all information and considers that, given the detailed updated costings provided and noting ATCO's consultant report that the 15 per cent contingency is excessive, that the contingency amount should be removed. The ERA concludes in this final decision, that the ERP capital expenditure for AA6, other than contingency expenditure satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR. This results in the removal of $5.1 million (being the proportionate allocation to ATCO) from the revised proposal estimate.

Cyber security program

218. In the revised proposal, while ATCO accepted the ERA's findings in the draft decision that the original business case focused on achieving Security Profile 3 (SP-3) without a legislative obligation, it noted that the revised Cyber Security Program is necessary due to the regulatory obligation to safeguard ATCO's critical infrastructure against escalating threats. ATCO proposed to spend $2.1 million for the IT cyber security program and a $6.6 million operating expenditure step change. This is an increase on the $4.5 million operating cost step change included in ATCO's initial plan (that is, no capital expenditure was proposed).

219. The basis of ATCO's revised business case is to meet its minimum compliance obligations and to address escalating cyber security risks to its critical infrastructure from an increasingly onerous threat landscape. It is no longer targeting SP-3 and has updated its scope of work and costs.

51 KPMG response to EMCa assessment.

52 EMCa final technical report, Oct 2024, pp. 39,40.

220. EMCa found that ATCO had provided compelling justification for its cyber security expenditure. ATCO's cyber security and program and roadmap is comprehensive and compelling in support of ATCO's revised position of meeting its regulatory obligations and implementing additional controls in response to the risks posed by the worsening cyber threat landscape.[53]

221. EMCa also considered that the establishment of a hybrid, on-shore security operation centre is aligned with good industry practice and the Australian Signals Directorate requirements.

222. EMCa found the capital expenditure reasonable, other than the provision of contingency.

223. The ERA concludes in the final decision, that the cyber security capital expenditure for AA6, other than contingency expenditure satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR. This results in the removal of $0.3 million from the revised proposal estimate.

Sustainability program (ESG reporting system)

224. In its revised proposal, ATCO accepted the ERA draft decision and did not propose to proceed with the network modelling amendments and the energy regulatory reporting amendments. However, ATCO proposed to progress the ESG reporting system and provided a business case for the same. Its capital expenditure forecast for this is $0.5 million.

225. ATCO noted that this system will enable it to streamline National Greenhouse and Energy Reporting (NGER) to the Clean Energy Regulator (CER) and report on the required auditable climate-related financial disclosures (including future scenario modelling). It explained that this reporting is in accordance with the sustainability standards stipulated by the Australian Accounting Standards Board as prescribed in draft amendments of the *Corporations Act* under Chapter 2. The regulatory change is currently before the Australian Parliament in the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024.

226. EMCa reported that ATCO has provided a reasonably detailed gap analysis between its current manual ESG reporting system and what it considers to be required as part of its new or likely ESG obligations and its corporate financing risk. EMCa considered that its risk assessment is 'High' if no further resources are allocated to support the reporting obligations was reasonable.[54]

227. EMCa reviewed ATCO's recommended option to replace a manual system. EMCa opined that ATCO needs to demonstrate that it is a more cost-effective approach than retaining the manual system. ATCO describes qualitative benefits, from the option to implement an integrated ESG system, including role-specific efficiencies, the ability to "easily produce data and reporting" to comply with the disclosure requirements through automated and robust data input and data extraction. EMCa considers that these benefits are realistic. EMCa also considers that, although ATCO has not quantified the avoided additional manual processing costs from the manual option, these benefits are realistic and would further validate selection of the integrated ESG system.

228. EMCa considered the cost of the integrated ESG system as reasonably derived, despite being a preliminary estimate, because (i) considerable thought regarding the approach

53 EMCa final technical report, Oct 2024, pp. 44,45.

54 EMCa final technical report, Oct 2024, pp. 41,42.

and the scope is evidenced in the business case, and (ii) the estimate itself was derived from vendor advice.

229. The ERA concludes in the final decision that ATCO's ESG reporting system capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Upgrade program (Payroll upgrade project)

230. As set out in the draft decision, the ERA accepted the GIS and WebMethods upgrade projects but did not approve the payroll upgrade project as no business case had been provided.

231. In the revised proposal, ATCO proposed a new forecast of $0.5 million (and $0.1 million annual operating expenditure step change) and has provided a project brief to complete implementation of the project, which is essentially advancing the upgrade of the payroll component of the Human Capital Management platform that will be a part of the proposed ERP replacement program. ATCO noted that the current payroll system, needs to be upgraded and modernised to meet regulatory compliance by 2025.[55]

232. EMCa reviewed this expenditure and found that ATCO's project brief described the need for advancement of the upgrade of the platform as primarily based on the risk of regulatory non-compliance from having an:

> Outdated, highly customised HR/Payroll system driving increased [redacted], STP2 compliance, payroll errors, [redacted] with aged software.[56]

233. EMCa concurred with ATCO's rationale that delivery of the payroll solution in parallel to the ERP replacement program is prudent.[57]

234. The ERA concludes in the final decision, that the payroll upgrade project capital expenditure for AA6 expenditure satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Continuance compliance program

235. In its revised proposal ATCO proposed a revision to the IT continuous improvements program, that was in its initial proposal. It proposed a revised forecast of $0.4 million, which was $1.6 million lower than the original proposal.

236. ATCO proposed that the program focusses on small scale initiatives that enables it to continue to meet regulatory compliance, license obligations and comply with the requirements of the safety case.

237. EMCa reviewed the expenditure and found that in its revised plan, ATCO stated that its proposal is based on various potential sources of changes to regulatory requirements, aiding incident resolution, and trends analysis, and managing the recurrence of controlled document reviews.[58]

55 ATCO, 2025-29 Revised Plan, pp. 110,111.

56 ATCO, 07.122 - payroll upgrade - project brief, Table 2.3.

57 EMCa final technical report, Oct 2024, p. 41.

58 ATCO, 2025-29 Revised Plan, pp. 113,114.

238. In EMCa's view, the proposed capital expenditure is not justified because:[59]

- The regulatory changes are not able to be identified and given the relatively small amount of capital expenditure (0.6 per cent of ATCO's proposed revised IT program) should reasonably be able to be absorbed within its current portfolio of projects.
- If any new, material obligations arise during the AA6 period requiring additional expenditure, there is a mechanism for ATCO to recover the reasonably incurred costs.
- No evidence is provided to support the need for incremental provision to support the speculative service delivery initiatives nominated by ATCO as examples.

239. The ERA concludes in the final decision that ATCO's continuous compliance program capital expenditure for AA6 does not satisfy the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Data enablement program

240. ATCO, in its revised proposal has introduced a new data enablement program. The forecast expenditure for this program is $6.3 million (and $0.9 million operating cost step change).

241. ATCO noted that, like many utilities, it relies heavily on asset data and information to drive decisions for cost effective asset maintenance and meeting the needs of stakeholders. It submitted that this investment ensures that the data foundations are in place to support the ERP replacement program while managing the needs of the business. During AA5, ATCO initiated a significant program to establish a data platform, integrating data from various systems.

242. ATCO's need for the project is, in summary:[60]

- Its data records have [redacted]
- [redacted]
- The data issues are currently overcome through manually cleansing and collating of data for reporting and insight purposes across the gas operational workforce, creating significant drag on operations.

243. EMCa reviewed ATCO's proposal and additional information and agreed that it is prudent to overcome data issues by implementing the proposed activities and capabilities incorporated in the preferred option rather than to continue to invest in manual data cleansing and validation and to do this before (i) introducing the replacement ERP as proposed in 2027, and (ii) extending the businesses' data analytics capability.

244. On the cost estimate, EMCa found the cost estimate of $7.2 million ($5.9 million capital expenditure, $1.3 million operating expenditure) derived from a bottom-up build of the

59 EMCa final technical report, Oct 2024, pp. 43,44.

60 ATCO, 2025-29 Revised Plan, p. 114.

cost of each of the four components (Data governance, Enterprise Data Model (EDM), catalogue and categorise, and Master Data Management (MDM)) reasonable other than the inclusion of the 15 per cent contingency allowance.

245. The ERA concludes in the final decision, that the data enablement program capital expenditure for AA6, other than contingency expenditure satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR. This results in the removal of $0.8 million from the revised proposal estimate.

Technology lifecycle program

246. ATCO, in its revised proposal has introduced a new technology lifecycle program. The forecast expenditure for this program is $11.9 million (and $2.7 million operating cost step change).

247. ATCO noted that it has revised and reformed the key IT services needed to ensure a supported and sustainable IT operations function and asset management lifecycle process to better meet the needs of the business and to ensure that reliable systems support is in place to enable the business to operate and comply with its service and network management obligations. Additional key IT services requiring implementation or modernisation of its ageing infrastructure have been identified. These include IT assets that have reached end-of-life or will reach "end of support" during AA6.

248. The need for the project was summarised below by ATCO

> The Technology Lifecycle Program of works was not included in the Initial Plan due to timing. The critical need for ATCO to modernise our ICT infrastructure and [redacted] was identified late in 2023 (after ATCO's initial submission) through an external assessment of the IT Current State. The assessment highlighted [redacted], it was necessary for ATCO to respond to address [redacted] through the Technology Lifecyle Program submitted.[61]

249. EMCa viewed ATCO's recent [redacted] that this program or a version of it was not included in the AA6 initial plan. However, there is a [redacted] to address through some form of refresh/upgrade of infrastructure at the end of their technical life in the next regulatory period. EMCa also agreed with ATCO's preferred option of addressing the technical risks to mission and business critical IT services.

250. EMCa tested the cost estimate provided by ATCO and was satisfied that the cost build up was reasonable aside from the inclusion of a contingency allowance.

251. The ERA concludes that the technology lifecycle capital expenditure for AA6, other than contingency expenditure satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR. This results in the removal of $1.6 million from the revised proposal estimate.

[61] ATCO response to IR 116.

Structures and equipment

252. In its proposal, ATCO proposed $23.9 million for structures and equipment, categorised into:[62]

- Fleet - $12.6 million
- Property and plant - $6.7 million
- Equipment - $4.6 million.

253. In the draft decision, the ERA considered the fleet and equipment expenditure as reasonable, however, it removed the time-sheeting expenditure (considered to be contingency) of $0.2 million from the property and plant expenditure, resulting in the draft decision structures and equipment capital expenditure being $23.7 million.

254. In its revised proposal, ATCO did not accept the ERA's Draft Decision to disallow $0.2 million 'timesheet loading' which was part of its $2.3 million proposed Depot Minor Works Program on the basis that it does not equate to a contingency allowance (as assumed by the ERA), stating that it 'covers the expected labour costs of the Facilities Project Management team (Facilities) who will oversee the depot minor capex works program.

255. In the revised proposal, ATCO proposed $23.6 million for the structures and equipment expenditure, which included a reduced fleet expenditure of $12.3 million.

256. The ERA concludes that $23.6 million of ATCO's proposed structures and equipment capital expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

Capitalised overheads

257. In its proposal, ATCO forecast $64.4 million for capitalised overheads in AA6.

258. In the draft decision, the adjustments to ATCO's base-step-trend model resulted in a reduction to the total overhead capitalisation amount of $8.7 million over the AA6 period. In addition to this, the ERA made changes to the labour price escalation, demand and staff incentives that resulted in the overheads reduction increasing from $8.7 million to $9.6 million.[63] This was applied to the draft decision AA6 capital expenditure approved by the ERA.

259. In the revised proposal ATCO proposed $66.5 million for capitalised overheads based on its updated base step trend proposal. As highlighted in the operating cost attachment, EMCa and the ERA has reviewed the expenditure and finds it reasonable.

260. The ERA, however made changes to the labour escalation and operating costs categories thereby resulting in the final decision, capitalised overheads of $64 million. The ERA concludes that $64 million of ATCO's proposed capitalised overheads expenditure for AA6 satisfies the criteria for conforming capital expenditure set out in rule 79 of the NGR.

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62 ERA, Draft decision Attachment 4, April 2024, pp. 67, 68.

63 ERA, Draft decision Attachment 4, April 2024, pp. 74, 75.

ERA final decision

261. The ERA has considered information provided by ATCO, public submissions and its technical consultant, EMCa's report to determine the amount of capital expenditure that meets the requirements of the NGR.

262. The Table 4.12 and Table 4.13 below show ERA's final decision capital expenditure by regulatory and asset categories for AA6. As detailed in this decision, in comparison to the revised proposal, there is an increase of $13.8 million (2.8%) and when compared to the draft decision, the increase is $61.4 million (13.9%).

Table 4.12: ERA final decision AA6 forecast capital expenditure by regulatory asset category ($ million real at 31 December 2023)

Category	2025	2026	2027	2028	2029	AA6
Network sustaining	**46.8**	**46.4**	**49.4**	**46.5**	**46.1**	**235.2**
Asset Replacement	43.8	40.8	42.4	40.8	39.9	207.7
Asset Performance and Safety	3.0	5.6	7.0	5.6	6.2	27.5
Network growth	**32.0**	**36.8**	**39.1**	**40.7**	**41.5**	**190.0**
Customer Initiated	32.0	36.8	39.1	40.7	41.5	190.0
Demand Related	-	-	-	-	-	-
Information technology	**17.0**	**24.8**	**8.2**	**4.1**	**1.6**	**55.7**
Structures and equipment	**6.1**	**6.7**	**2.8**	**3.8**	**4.2**	**23.6**
Total	**101.9**	**114.7**	**99.5**	**95.0**	**93.5**	**504.5**

Source: ERA final decision analysis

Table 4.13: ERA's amended conforming capital expenditure for AA6 by asset class ($ million real at 31 December 2023)

Asset category	2025	2026	2027	2028	2029	AA6
High Pressure Mains - Steel	2.4	3.0	6.2	4.7	5.4	21.7
High Pressure Mains - PE	-	-	-	-	-	-
Medium / Low Pressure Mains	38.9	39.5	41.8	40.7	40.3	201.0
Regulators	2.9	2.2	2.2	2.2	2.2	11.6
Secondary Gate Stations	-	-	-	-	-	-
Buildings	1.7	3.5	0.5	0.4	0.5	6.6
Meter and Services Pipes	33.4	35.5	36.7	38.0	38.2	181.8

Asset category	2025	2026	2027	2028	2029	AA6
Equipment & Vehicles	1.0	0.9	0.9	0.9	0.9	4.7
Vehicles	3.4	2.3	1.4	2.4	2.8	12.3
Information Technology	17.0	24.8	8.2	4.1	1.6	55.7
Telemetry and monitoring	1.1	3.0	1.6	1.6	1.6	8.9
Land	-	-	-	-	-	-
Equity Raising Cost	-	-	-	-	-	-
Total	**101.9**	**114.7**	**99.5**	**95.0**	**93.5**	**504.5**

Source: ERA final decision analysis

263. The ERA's final decision closing capital base for AA6 is $1,681.1 million using the capital expenditure approved above and the straight-line depreciation of these values over their economic lives (see Attachment 6).

Table 4.14: ERA's closing capital base for AA6 ($ million real at 31 December 2023)

	2025	2026	2027	2028	2029
Opening capital base	1,582.5	1,616.5	1,651.1	1,665.5	1,674.2
Plus: Capital Expenditure	101.9	114.7	99.5	95.0	93.5
Less: Depreciation	60.3	72.5	77.4	78.6	79.0
Less: Accelerated depreciation	7.6	7.6	7.6	7.6	7.6
Closing capital base	**1,616.5**	**1,651.1**	**1,665.5**	**1,674.2**	**1,681.1**

Source: ERA analysis

Required Amendment

4.2 The projected capital base must be amended in the access arrangement information to reflect the values in Table 4.14.

Appendix 1 List of Tables

Appendix 2 List of Figures