Economic Regulation Authority

Final decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (2026 to 2030)

Attachment 7: Return on capital, taxation, incentives

18 December 2025

D302606

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 proposed revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline. 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 revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline - Overview, 18 December 2025
  - Attachment 1: Access arrangement and services
  - Attachment 2: Demand
  - Attachment 3: Revenue and tariffs
  - Attachment 4: Regulatory capital base
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  - Attachment 8: Other access arrangement provisions
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Numerical amounts in tables throughout this document are generally shown to 1 decimal place. Total numerical amounts that are shown may not add exactly due to rounding. The tariff (revenue) model that was used for this decision should be used for accurate unrounded numerical amounts.

Attachment 7. Summary

Rate of return

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

A gas rate of return instrument is required under the National Gas Law.[1] The gas instrument sets out the methods the ERA and service providers must use to estimate the allowed rate of return and the value of imputation credits for gas transmission and distribution service providers.

The rate of return DBP used in its access arrangement proposal for the sixth access arrangement (AA6) is consistent with the gas rate of return instrument.

Changing economic and financial conditions are important factors in determining DBP's cost of capital and the regulatory value of its capital base. The rate of return in this final decision (7.12 per cent, nominal after-tax) was updated for current market conditions, with a 20-trading day averaging period to 19 September 2025. Higher rates of inflation account for 20 per cent of the total increase in revenue between the AA5 final decision and the AA6 final decision. Updated rates of return also account for 29.8 per cent of the total increase in revenue between the AA5 final decision and the AA6 final decision.

Taxation

A tax building block is included in the annual revenue requirement estimate.

The taxation cost is calculated by multiplying the estimated taxable income by the statutory income tax rate of 30 per cent. The estimated taxation payable is calculated by deducting the value of imputation credits.

DBP's method of calculating AA6 taxation was consistent with its approach in AA5. The ERA has updated the AA6 taxation calculation based on approved capital expenditure and taxable revenue calculations in this final decision.

Incentive mechanism

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

The current access arrangement contains the Efficiency Factor (E Factor) scheme, which DBP proposed to continue in the access arrangement for AA6, with some minor amendments to the wording of the scheme. In our draft decision, the ERA accepted DBP's proposed amendments to the scheme, subject to some further wording changes for better clarity.

DBP's revised proposal has addressed the requirements of the draft decision and hence the ERA has approved the E Factor scheme to operate in AA6 in accordance with the provisions set out in section 15 of the access arrangement. The E Factor benchmarks for AA6 have

[1] NGL, section 30D, 30E.

been calculated based on the ERA's final decision position on the efficient forecast of operating expenditure for AA6.[2]

In applying the E Factor for AA5, DBP calculated a revised negative efficiency carryover of $52.3 million ($ real). In calculating this revised amount, DBP:

- Reduced the adjustment for the change in capitalisation policy from $7.7 million to $2.3 million, to acknowledge the additional costs related to its revised operating expenditure proposal to include a labour cost rate update in 2026 base year operating expenditure.

- Excluded a subset of inspections and other asset management expenditure, totalling $1.6 million, from the E Factor calculation (rather than the whole category of expenditure as initially proposed).

The ERA has not approved DBP's revised operating expenditure proposal concerning the labour cost rate update, and hence, has maintained its draft decision to accept an amount of $7.7 million for the change in capitalisation policy

The ERA has also rejected DBP's proposed exclusion of $1.6 million for inspections and other asset management expenditure. We have not viewed any information that conclusively demonstrates that this cost had not already been included in the base year operating expenditure approved for AA5. Additionally, the amount is not materially significant and should be managed within the approved operating expenditure allowance.

Based on the above positions, the ERA has calculated a negative efficiency carryover of $36.9 million ($ real) to apply in AA6.

Summary of required amendments:

Required amendment 7.1

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

Required amendment 7.2

The estimated cost of corporate income tax must be amended in accordance with the values set out in Table 7.11 of Final Decision Attachment 7.

Required amendment 7.3

In accordance with the calculations set out in Table 7.14 and Table 7.15 of Final Decision Attachment 7, a negative efficiency carryover of $36.9 million (real as at 31 December 2024) must be applied in AA6.

Required amendment 7.4

The E Factor benchmarks to apply for AA6, as set out in section 15 of the access arrangement, must be updated to reflect the benchmarks set out in Table 7.16 of Final Decision Attachment 7.

[2] The ERA's consideration of operating expenditure is set out in Final Decision Attachment 5.

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.[3]

2. The NGR requires the use of the "building block" approach to determine the total revenue requirement for each year of the access arrangement period.[4] The total revenue requirement is the amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline (that is, the service provider's cost of service).

3. In addition to a forecast of operating expenditure and depreciation on the projected capital base, other components (building blocks) for determining the service provider's total revenue requirement include:

   - A return on the projected capital base for the year.
   - The estimated cost of corporate income tax for the year.
   - Increments or decrements for the year that result from the operation of an incentive mechanism.

4. Rule 87 sets out the formula for calculating the return on the projected capital base ($RPCB_t$) for each year of an access arrangement period as set out below. The allowed rate of return must be calculated in the way stated in the rate of return instrument that is approved by the ERA under a separate process.[5]

   $$RPCB_t = a_t \times v_t$$

   where:

   a_t is the allowed rate of return for the regulatory year; and

   vt is the value, as at the beginning of the regulatory year, of the projected capital base for the regulatory year (as established under NGR 78 and subject to NGR 82(3)).

5. Rule 87A sets out the formula for calculating the estimated cost of corporate income tax (ETC_t) for each year of an access arrangement period as follows:

   $$ETC_t = (ETI_t \times r_t)\ (1 - \gamma)$$

   where:

   ETI_t is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of reference services if such an entity, rather than the service provider, operated the business of the service provider;

   r_t is the expected statutory income tax rate for that regulatory year as determined by the ERA; and

   γ is the allowed imputation credits for the regulatory year.

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3 The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed December 2025). At the time of this decision, *National Gas Rules – Western Australia version 12 (1 February 2024)* was in effect.

4 NGR, rule 76.

5 ERA, *2022 final gas rate of return instrument*, 16 December 2022 (Amended 12 September 2023).

6. Rule 98 allows the service provider to include (or for the regulator to require the service provider to include) one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider.[6] The incentive mechanism may provide for the carryover of increments for efficiency gains and decrements for efficiency losses from one access arrangement period to the next.[7] Where such carryovers exist, the increments or decrements that apply must form part of the building blocks to determine the service provider's total revenue requirement (cost of service).

7. Access Arrangement Information (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. The NGR require the following cost of service information to be included in the service provider's AAI:[8]

    - The allowed rate of return for each year of the access arrangement period (rule 72(1)(g)).
    - The estimated cost of corporate income tax calculated in accordance with rule 87A, including the allowed imputation credits referred to in that rule (rule 72(1)(h)).
    - If an incentive mechanism operated for the previous access arrangement period, the proposed carryover of increments for efficiency gains or decrements for efficiency losses in the previous access arrangement period and a demonstration of how allowance is to be made for any such increments or decrements (rule 72(1)(i)).

6 Where an incentive mechanism is included in an access arrangement, the service provider must include the rationale for the proposed incentive mechanism in its Access Arrangement Information (NGR, rule 72(1)(l)).

7 While an incentive mechanism may provide for the carry-over of increments for efficiency gains and decrements for efficiency losses from one access arrangement period to the next, it must be consistent with the revenue and pricing principles (which are set out in section 24 of the NGL and provide a framework for the construction of reference tariffs).

8 NGR, rule 72.

ERA draft decision

Rate of return

8. DBP's rate of return and inflation estimates were consistent with the methods detailed in the ERA's gas rate of return instrument. DBP proposed an average nominal post-tax WACC of 6.93 per cent for AA6.

9. Based on the 2022 gas rate of return instrument, the ERA determined the point estimates for each of the WACC parameters as set out in Table 7.11. The ERA used a 20-trading day averaging period to 30 April 2025 as a placeholder and noted that the final decision would be updated for DBP's final nominated averaging period.

Table 7.11: ERA draft decision rate of return for AA6

Component	DBP proposal	ERA draft decision
Return on debt (%)		
5-year interest rate swap (effective yield)	3.759	3.776
Debt risk premium (10-year average)	1.823	1.860
Debt issuing cost	0.165	0.165
Debt hedging cost	0.123	0.123
Nominal return on debt	*5.871*	*5.924*
Return on equity		
Nominal risk free rate (%)	3.96	4.32
Market risk premium (%)	6.1	6.1
Equity beta	0.7	0.7
Nominal return on equity (%)	*8.23*	*8.59*
Other parameters		
Debt proportion (%)	55	55
Inflation rate (%)	2.18	1.90
Corporate tax rate (%)	30	30
Franking credits	0.5	0.5
Nominal after-tax WACC (%)	**6.93**	**7.12**
Real after-tax WACC (%)	4.65	5.13

Source: ERA, Draft decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (2026 to 2030) - Attachment 7: Return on capital, taxation and incentives, 7 July 2025, Table 7.8.

Taxation

10. DBP's proposed method to calculate AA6 taxation was consistent with the approach used in AA5 and was accepted by the ERA, with updates to reflect the approved input values used in the ERA's draft decision.

11. The ERA's draft decision calculation of the estimated cost of corporate income tax (net of imputation credits) for each regulatory year in AA6 is set out in Table 7.22

Table 7.22: ERA draft decision estimated cost of corporate income tax for AA6 ($ million, nominal)

	2026	2027	2028	2029	2030
Unsmoothed revenue	**466.2**	**486.4**	**488.8**	**490.7**	**498.4**
Tax expenses					
Operating expenditure	(109.8)	(117.3)	(117.4)	(113.7)	(118.6)
Debt servicing cost	(113.7)	(112.4)	(110.9)	(109.0)	(107.0)
Tax depreciation	(126.9)	(112.4)	(113.4)	(82.3)	(83.5)
Total tax expenses	**(350.4)**	**(342.2)**	**(341.7)**	**(305.0)**	**(309.2)**
Tax					
Estimated taxable income	115.8	144.3	147.1	185.7	189.3
Carried forward tax loss	-	-	-	-	-
Estimated taxable income (net of tax loss)	115.8	144.3	147.1	185.7	189.3
Estimated cost of corporate income tax	33.2	41.5	42.7	53.4	54.2
Value of imputation credits	(16.6)	(20.8)	(21.3)	(26.7)	(27.1)
Estimated cost of corporate income tax	**16.6**	**20.8**	**21.3**	**26.7**	**27.1**

Source: ERA, Draft decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (2026 to 2030) - Attachment 7: Return on capital, taxation and incentives, 7 July 2025, Table 7.11.

Incentive mechanism

12. The AA5 access arrangement contained the Efficiency Factor (or E Factor) scheme. DBP proposed to continue the E Factor scheme for AA6, with some minor amendments to the wording of the scheme. In the draft decision, we accepted these amendments but required the E Factor outcomes (increments/decrements) to be shown as a building block component for total revenue, and the E Factor benchmarks to continue to be disclosed in the access arrangement provisions.

13. As part of its proposal for AA6, DBP added “inspections and other asset management” expenditure as a specific cost exclusion when determining the E Factor benchmarks. The ERA did not approve the exclusion in the draft decision on the basis that these costs are of a routine and recurrent nature and so are largely within DBP’s control. We determined that, in circumstances where unexpected costs do arise from routine inspections and other asset management activities and are outside of DBP’s control, these costs may be considered under other provisions of the E Factor that provide for the exclusion of:

    - Any operating expenditure not forecast but that meets the criteria for operating expenditure and was incurred for the purpose of reducing capital expenditure.
    - Any other operating expenditure amount that the ERA agrees or requires DBP to exclude.

14. After assessing the application of the E Factor for AA5 and the continuation of the scheme in AA6, the ERA decided to redraft some clauses to simplify and clarify the provisions of the scheme. These redrafted clauses would be used for the application of the scheme in AA6.

Required amendments

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

> **Draft Decision Required Amendment 7.1**
>
> Subject to the nomination of a final averaging period, DBP must update its rate of return to be consistent with Table 7.8 of Draft Decision Attachment 7 [Table 7.11 of this document].
>
> **Draft Decision Required Amendment 7.2**
>
> The estimated cost of corporate income tax must be amended in accordance with Table 7.11 of Draft Decision Attachment 7 [Table 7.22 of this document].
>
> **Draft Decision Required Amendment 7.3**
>
> DBP must apply a negative efficiency carryover of $37.0 million (real as at 31 December 2024) in AA6 in accordance with the calculations set out in Table 7.12 and Table 7.13 of Draft Decision Attachment 7.
>
> **Draft Decision Required Amendment 7.4**
>
> DBP must amend section 15 the proposed access arrangement, which details the provisions for the E Factor scheme, to set out the E Factor benchmarks that will apply for AA6.
>
> **Draft Decision Required Amendment 7.5**
>
> DBP must amend clauses 15.9 and 15.10 of the proposed access arrangement, which detail the exclusions and adjustments that apply to the annual E Factor benchmark, to be consistent with the revised drafting set out in paragraph 135 of Draft Decision Attachment 7.
>
> **Draft Decision Required Amendment 7.6**
>
> DBP must update the E Factor benchmarks to apply for AA6 to reflect the benchmarks set out in Table 7.14 of Draft Decision Attachment 7. The E Factor benchmarks must be set out in the access arrangement.

DBP response to draft decision

Rate of return

16. DBP agreed with the ERA's application of the 2022 gas rate of return instrument to determine the ERA's draft decision rate of return. DBP amended the values of WACC parameters in its revised tariff model to be consistent with the ERA's draft decision, with market-based parameters to be updated based on an agreed averaging period.

Taxation

17. DBP agreed with the ERA's method of calculating income tax, including tax asset lives of the existing asset categories. However, DBP did not accept the ERA's draft decision required amendment on the estimated cost of corporate income tax because the values of revenue and expenses included in the calculation had been amended to be consistent with the values in its revised proposal.[9]

18. DBP's proposed tax asset lives and asset categories for AA6 remain unchanged from AA5 and are set out in Table 7.33.

Table 7.33: DBP proposed tax asset lives for AA6 (years)

Asset categories	AA6 proposed
Pipeline	20
Compression	20
Metering	15
Other depreciable	10
Computers and motor vehicles	5
Cathodic/corrosion protection	15
SCADA, electrical, control & instrumentation and communications	10
Building	40
Cost of raising equity	5
BEP lease	20

Source: DBP, Revised Final Plan 2026-2030, Attachment 14.1A: Tariff Model, August 2025.

19. DBP has used the roll forward method to roll forward the value from the tax asset base from the closing value in AA5 into AA6. To calculate the tax asset base for AA6, DBP has added forecast capital expenditure and deducted forecast tax depreciation.

[9] DBP, *Revised Final Plan 2026-2030, Attachment 11.1: Response on Financing Costs*, August 2025, p. 3.

20. Table 7.44 sets out DBP's amended tax asset base over AA5 and its closing AA5 balance to be rolled in for AA6. This amendment is consistent with DBP's capital expenditure in its revised proposal. Based on DBP's amended capital expenditure proposal, DBP determined a closing tax asset base value of $541.8 million to be rolled forward as the opening value for the AA6 tax asset base. This compared to a closing tax asset value of $549.7 million in DBP's initial proposal.[10]

21. Table 7.55 sets out DBP's amended calculation of the tax asset base for AA6.

Table 7.44: DBP proposed tax asset base for AA5 ($ million, nominal)

	2021	2022	2023	2024	2025
AA5 opening tax asset base	934.3	864.5	790.0	721.5	632.6
Capital expenditure	39.2	42.1	52.3	39.5	38.7
Tax depreciation	(109.0)	(116.6)	(120.9)	(128.5)	(129.4)
Asset disposal	-	-	-	-	-
Closing value	**864.5**	**790.0**	**721.5**	**632.6**	**541.8**

Source: DBP, Revised Final Plan 2026-2030, Attachment 11.1: Response on Financing Costs, August 2025, p. 6.

Table 7.55: DBP proposed tax asset base for AA6 ($ million, nominal)

	2026	2027	2028	2029	2030
AA6 opening tax asset base	541.8	471.2	429.6	379.0	349.9
Capital expenditure	57.0	72.7	65.1	55.8	40.2
Tax depreciation	(127.7)	(114.2)	(115.7)	(84.9)	(86.5)
Asset disposal	-	-	-	-	-
Closing value	**471.2**	**429.6**	**379.0**	**349.9**	**303.5**

Source: DBP, Revised Final Plan 2026-2030, Attachment 11.1: Response on Financing Costs, August 2025, p.6.

22. Based on the amended values of the AA6 tax asset base, DBP revised the estimated cost of corporate income tax for each regulatory year in AA6 (see Table 7.66). DBP estimated its amended cost of tax over AA6 to be $101.9 million (real 2024) using a corporate tax rate of 30 per cent.[11] This compared to $100.0 million (real 2024) in DBP's initial proposal.[12] The increase in corporate income tax is consistent with DBP's increased revenue requirement in its revised proposal.

[10] DBP, *Revised Final Plan 2026-2030, Attachment 14.1: Tariff Model (Public),* August 2025. DBP, *Final Plan 2026-2030*, January 2025, p. 116.

[11] DBP, *Revised Final Plan 2026-2030, Attachment 11.1: Response on Financing Costs*, August 2025, p. 4.

[12] DBP, *Final Plan 2026-2030*, January 2025, p. 113.

Table 7.66: DBP's amended calculation of corporate income tax in AA6 ($ million)

	2026	2027	2028	2029	2030
Estimated taxable income	121.0	141.7	145.3	181.7	186.2
Tax payable	34.8	39.7	42.1	52.2	53.2
Less value of imputation credits	(17.4)	(19.8)	(21.1)	(26.1)	(26.6)
Estimate of corporate income tax ($ nominal 2024)	17.4	19.8	21.1	26.1	26.6
Deflator to $ real 2024	0.960	0.941	0.922	0.903	0.885
Estimate of corporate income tax ($ million, real 31 December 2024)	**16.7**	**18.7**	**19.4**	**23.6**	**23.6**

Source: DBP, Revised Final Plan 2026-2030, Attachment 11.1: Response on Financing Costs, August 2025, p. 5.

Incentive mechanism

23. DBP revised its calculation of the E Factor for AA5, resulting in a negative efficiency carryover of $52.3 million (real 2024). This is $15.3 million more than the ERA's calculated negative efficiency carryover in the draft decision.[13]

24. DBP's revised negative efficiency carryover calculation is set out in supporting information.[14] DBP stated that while it maintained relative operating cost efficiency during AA5, a change in capitalisation policy concerning its labour costs contributed to its revised proposal for a larger negative carryover for AA6.[15] To calculate its revised carryover, DBP has:

    - Included a portion of the labour cost rate update in 2024 to help offset the increase in base year operating expenditure.
    - Excluded a small portion of asset management expenditure.

25. Concerning the labour cost rate update and in response to the ERA's draft decision on operating expenditure, DBP has submitted that the impact of the labour cost rate should be reinstated into the base year for 2026 for the operating expenditure forecast, along with other salary costs.[16] To acknowledge the impact of the labour cost rate change on expenses, DBP revised the amount used to adjust the E Factor benchmark for 2024 for capitalisation policy changes to $2.3 million (instead of $7.7 million). DBP stated that the impact of this change on the negative efficiency carryover was $21.6 million (that is, the negative carryover increased by this amount).[17]

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13 A negative efficiency carryover results in DBP being required to return revenue to shippers through lower reference tariffs during AA6. A positive efficiency carryover would allow DBP to retain additional revenue during AA6.

14 DBP, *Revised Final Plan 2026-2030, Attachment 12.1A: Opex Incentive Scheme Model*, August 2025. DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025.

15 DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025, p. 1.

16 DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025, p. 7. DBP's revised operating expenditure proposal is considered in Final Decision Attachment 5.

17 DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025, pp. 6-7.

26. DBP also revised the amount of asset management expenditure to be excluded from the E Factor carryover (through an adjustment to the E Factor benchmark). Rather than excluding all inspections and other asset management expenditure as proposed in its initial proposal, DBP's revised proposal is to exclude a sub-set of this expenditure ($1.6 million), which resulted from unforeseen corrosion defects found during periodic integrity asset inspections.[18] This has the effect of lowering the negative efficiency carryover amount.

27. DBP's revised negative efficiency carryover of $52.3 million assumes that the ERA will accept DBP's revised operating expenditure proposal. DBP submitted:

> We wish to reemphasise that this proposed carryover assumes that base year opex proposed to be rolled over from 2024 to 2026 is accepted in the ERA's final decision on opex, otherwise it constitutes a significant over penalty which is unreasonable and inconsistent with efficiency requirements under NGR 91(1) and the pricing and revenue principles of NGR 98(3).
>
> The scheme was approved by the ERA in AA5 and the expectation is that it is to operate as intended in tandem with opex performance (including the rollover of base year opex into AA6) in a symmetrical and reasonable manner. Even when increasing costs are due to market conditions rather than inefficiency (as numerous market indicators such as producer price indexes and measures of employment and labour market reports over the period would suggest), the DBNGP is still penalised for underperformance against the benchmark, but it shouldn't be penalised if there's not approval for the ongoing cost base into AA6.[19]

28. For AA6, DBP has applied its revised operating expenditure forecasts in the E Factor benchmark calculations. Apart from this, DBP has otherwise accepted the ERA's draft decision positions concerning the drafting of the E Factor provisions in the revised access arrangement, including the E Factor exclusions ("excluded costs") that will apply when determining the E Factor benchmarks.

Leaving the capitalisation policy amount for 2024 as $7.7 million, the carryover would be -$30.7 million. Changing the amount from $7.7 million to $2.3 million results in a carryover of -$52.3 million.

18 DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025, pp. 7-8.

19 DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025, p. 9.

Submissions to the ERA

29. Three submissions received in response to DBP's initial proposal and the ERA's issues paper commented on the rate of return:

    - Alinta Energy noted that DBP's rate of return calculation appeared consistent with the required guideline and other recent access arrangement decisions.[20]
    - Horizon Power noted that changing economic and financial conditions, which contributed to a higher WACC, were outside the control of both DBP and the ERA.[21]
    - NewGen Power Kwinana noted that DBP's proposed price increase for AA6 compared to AA5 was due to a higher WACC.[22]

30. NewGen's submission also commented on DBP's proposal to exclude the inspections and other asset management expenditure category from the E Factor scheme. NewGen did not agree with this proposal on the basis that it did not accept DBP's argument that the expenditure was generally non-recurrent and outside DBP's control.[23]

31. The ERA addressed the above matters as part of its draft decision considerations.

32. Following the draft decision and DBP's revised proposal, NewGen Power made additional comments.[24] In summary, NewGen:

    - Supported the application of the ERA's gas instrument to DBP's rate of return calculation and inflation forecasting method.
    - Recognised that the WACC estimate and inflation forecast for AA6 would be determined closer to its commencement date and would partly depend on any changes in the market conditions between the Draft and Final Decisions.
    - Noted that the significant increase in the WACC for the AA6 period compared to AA5 emphasised the importance of expenditure cost discipline and an approach to deferred depreciation in the AA6 period to mitigate the price shocks that gas users would face arising from the higher WACC.
    - Supported the ERA's estimation of DBP's tax building block, noting that its forecast might change if key inputs to the calculation changed in the final decision.

20 Alinta Energy, *Submission in response to DBP proposal and/or ERA issues paper*, 1 April 2025, p. 2.

21 Horizon Power, *Submission in response to DBP proposal and/or ERA issues paper*, 26 March 2025, p. 2.

22 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 3.

23 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 12.

24 NewGen Power, *Submission in response to ERA draft decision and/or DBP revised proposal*, September 2025, p. 11.

Final decision

Return on projected capital base

33. The ERA published its gas rate of return instrument on 16 December 2022.[25] On 12 September 2023, the instrument was amended due to the cessation of the Reserve Bank of Australia's (RBA) F16 statistical table.[26] The amended instrument applies to this current review.[27]

34. DBP has used the instrument for its revised proposal. This final decision is consistent with the gas rate of return instrument.

35. The following sections detail the ERA's consideration of each of the rate of return parameters and the ERA's final decision on the rate of return for AA6.

Gearing

36. Gearing is the proportion of a business' assets financed by debt and equity. Gearing is defined as the ratio of the value of debt to total capital (that is, the sum of debt and equity) and is generally expressed as follows:

$$\text{Gearing} = \frac{\text{Debt}}{\text{Debt} + \text{Equity}}$$

Equation 11

37. The ERA uses the gearing ratio to weight the costs of debt and equity when the WACC is determined.

38. Consistent with the gas rate of return instrument, the ERA has applied a gearing of 55 per cent in this final decision.

Return on debt

39. Consistent with the gas rate of return instrument, the ERA maintains the hybrid trailing average approach to estimate the return on debt. Under the hybrid trailing average approach for estimating the return on debt:

- The benchmark entity enters into the assumed benchmark efficient debt strategy, assumed to be a portfolio of 10-year fixed-rate debt with 10 per cent refinanced each year (the same debt portfolio as the full trailing average approach).
- The benchmark entity uses derivative arrangements to adjust rates from the efficient debt portfolio to lock in five-year interest rate swaps rates, set on the day at the start of the regulatory period.

[25] ERA, *Notice – 2022 gas rate of return instrument review: Publication of final gas instrument and explanatory statement*, 16 December 2022 (online) (accessed December 2025).

[26] ERA, *2022 final gas rate of return instrument*, 16 December 2022 (Amended 12 September 2023), p. 16 and p. 22.

[27] It should be noted that the RBA table is now available again. The instrument accommodates this circumstance and utilises RBA data in the first instance.

- The 10-year trailing average debt risk premium is updated annually.

40. The estimate of the return on debt under the hybrid trailing average approach comprises a risk premium above the risk free rate, plus an additional margin for administrative and hedging costs:

$$Return\ on\ debt = Risk\ free\ rate + Debt\ risk\ premium + Debt\ raising\ costs + Hedging\ costs$$

Equation 22

41. The individual debt components are further discussed below.

Debt risk free rate

42. The risk free rate is the return an investor would expect when investing in an asset with no risk. The risk free rate is the rate of return an investor receives from holding an asset with a guaranteed payment stream (that is, where there is no risk of default). Since there is no likelihood of default, the return on risk free assets compensates investors for the time value of money.

43. Consistent with the hybrid trailing average approach, the ERA has used the interest rate swap rate at the start of a regulatory access arrangement period. The estimate is fixed for the duration of the access arrangement period.

44. For this final decision the ERA estimates a risk free rate for the return on debt of 3.778 per cent for the 20-day averaging period to 19 September 2025.

Term of debt

45. To estimate a return on debt, a regulator needs to set a benchmark term for debt.

46. Consistent with the gas rate of return instrument, the ERA has determined a 10-year term for debt that aligns with the recent Australian regulatory practices.

47. For this final decision, the ERA applies a benchmark efficient debt strategy as a portfolio of 10-year fixed-rate debt with 10 per cent refinanced each year to determine the return on debt.

Benchmark credit rating

48. The benchmark credit rating is an input required to estimate the debt risk premium. The credit rating is defined as the forward-looking opinion provided by a ratings agency of an entity's credit risk. Credit ratings provide a broad classification of a firm's probability of defaulting on its debt obligations. Therefore, credit ratings represent the risk present in holding a debt instrument.

49. Consistent with the gas rate of return instrument, the ERA applies a benchmark credit rating of BBB+ to determine the return on debt.

Debt risk premium

50. The debt risk premium is the return above the risk free rate that lenders require to compensate them for the risk of providing debt funding to a benchmark business. The debt risk premium compensates holders of debt securities for the possibility of default by the issuer.

51. Consistent with the gas rate of return instrument, the ERA uses a 10-year term to estimate the debt risk premium.

52. The ERA considers the revised bond yield approach should be used to determine the debt risk premium.

53. Estimating the debt risk premium under this approach involves the following steps, which determines the debt risk premium at a point in time, being the date of calculation.

- **Step 1**: Determining the benchmark sample: Identifying a sample of relevant domestic and international corporate bonds that reflect the credit rating of the benchmark efficient entity.
- **Step 2**: Collecting data and converting yields to Australian dollar equivalents: Converting the bond yields from the sample into hedged Australian dollar equivalent yields inclusive of Australian swap rates.
- **Step 3**: Averaging yields over the averaging period: Calculating an average AUD equivalent bond yield for each bond across the averaging period.
- **Step 4**: Estimating curves: Estimating yield curves on this data by applying the Gaussian Kernel, Nelson-Siegel and Nelson-Siegel-Svensson techniques.
- **Step 5**: Estimating the cost of debt: Calculating the simple average of the three yield curves' 10-year costs of debt to arrive at a market estimate of the 10-year cost of debt.
- **Step 6**: Calculating the debt risk premium: Calculating the debt risk premium by subtracting the 10-year interest rate swap rate from the 10-year cost of debt.

54. The ERA publishes debt risk premium process documents and accompanying tools for stakeholders on the revised bond yield approach. These documents and tools provide technical steps and details necessary for stakeholders to estimate the debt risk premium.[28]

55. To determine the debt risk premium that should be used to calculate the return on debt, the ERA constructed a 10-year trailing average debt risk premium. This consists of a debt risk premium for the current year and a debt risk premium for each of the nine prior years. The debt risk premium is then calculated for each year in the 10-year term, to work out an average value to be applied to AA6.

56. Table 7.77 details the ERA's estimated trailing average debt risk premium for this final decision. The historical annual debt risk premium estimates that applied in AA5 are unchanged for AA6.

[28] Technical documents and tools to estimate the ERA's revised bond yield approach can be found on the ERA website.

Table 7.77: ERA final decision estimated trailing average debt risk premium for AA6

Year	Debt risk premium (%)
2017	2.274
2018	1.756
2019	1.712
2020	1.995
2021	1.712
2022	1.568
2023	2.228
2024	1.913
2025	1.606
2026	1.534*
Trailing average debt risk premium	**1.830**

**Debt risk premium estimate for 20-day averaging period to 19 September 2025.*

Source: ERA analysis.

57. For this final decision, the ERA considers a debt risk premium of 1.534 per cent for 2026 (the first year of AA6) based on the 20-day averaging period to 19 September 2025. The debt risk premium is updated annually over the AA6 period through the tariff variation mechanism.

Debt raising and hedging costs

58. Debt raising and hedging costs are the administrative costs and other charges incurred by businesses when obtaining and hedging debt financing. Historically, the ERA has allowed these costs to be included as part of the return on debt.

59. Consistent with the gas rate of return instrument, the ERA maintains that debt raising costs should be based on direct costs associated with established regulatory practices and that debt raising costs of 0.165 per cent per year are appropriate.

60. In the gas rate of return instrument, the ERA has applied an allowance of 0.123 per cent per year for debt hedging costs.

Return on equity

61. The return on equity is the return that investors require from a firm to compensate them for the risk they take by investing their capital.

62. There are no readily observable proxies for the expected return on equity. While estimates of the cost of debt can be obtained by observing debt instruments, financial

markets do not provide a directly observable proxy for the cost of equity, for either individual firms or for the market.

63. Estimating a forward-looking return on equity, sufficient to enable regulated firms to recoup their prevailing equity financing costs, requires the use of models. The model most used by Australian regulators for quantifying the return on equity has been the Sharpe-Lintner Capital Asset Pricing Model (CAPM).

64. The ERA determines a single point estimate for the return on equity using the Sharpe-Lintner CAPM by applying the following formula:

$$R_i = R_f + \beta_i(R_M - R_f)$$

Equation 33

where:

R_i is the required rate of return on equity for the asset, firm or industry in question

R_f is the risk free rate

β_i is the equity beta that describes how a particular portfolio i will follow the market which is defined as $\beta_i = cov\ (R_i, R_M)/var(R_M)$

$(R_M - R_f)$ is the market risk premium.

65. The individual equity components are further discussed below.

Equity risk free rate

66. The risk free rate is the return an investor would expect when investing in an asset with no risk.

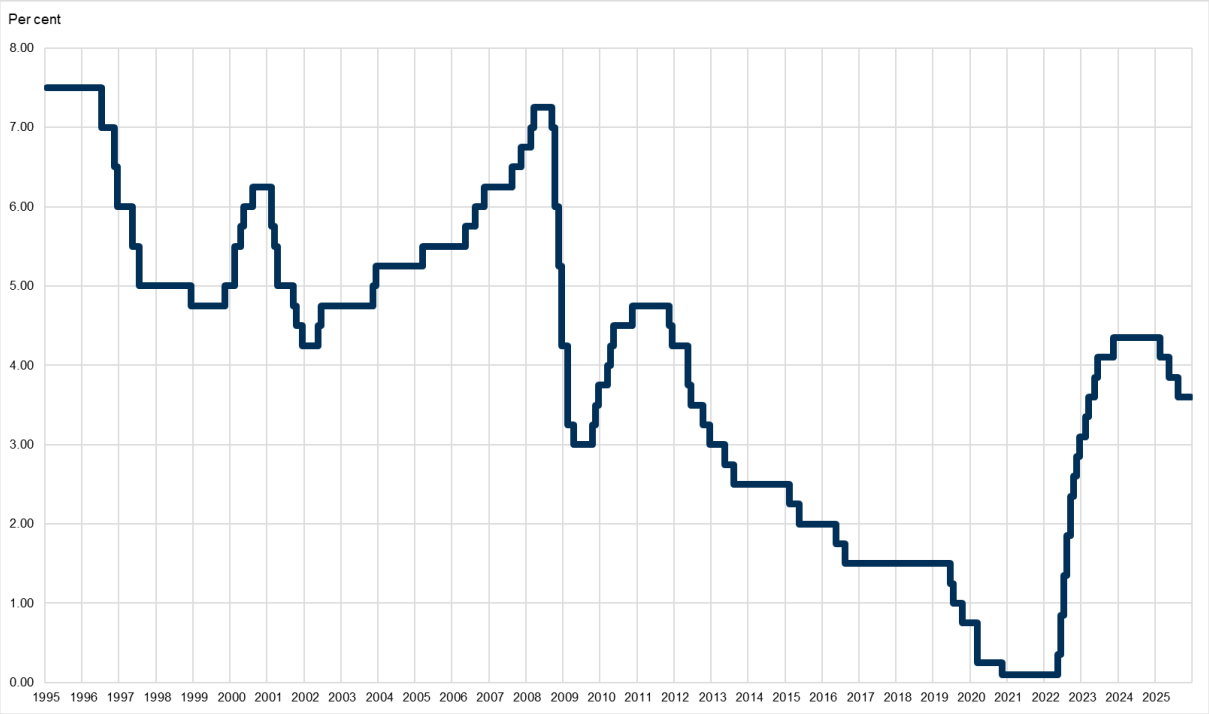
67. Consistent with the gas rate of return instrument, the ERA considers that 10 years is the most appropriate term for the equity risk free rate and considers observed yields from Commonwealth Government Security bonds are the best proxy for risk free assets in Australia.

68. Economic and financial conditions have changed significantly since the ERA's AA5 final decision in April 2021. Although the risk free rate had been volatile and uncertain between 2019 and 2023, it appears to have returned to long-term levels.

69. Inflation in Australia increased to 6.6 per cent in 2022 and has since been declining in response to the RBA's tightening of monetary policy to meet the inflation target band of 2 per cent to 3 per cent. However, the rate of decline has been slower than anticipated due to more persistent supply side inflationary factors. Other shocks such as the conflicts in Ukraine, global supply shortages and the more recent trade war have added to uncertainty of the inflationary environment.

70. The RBA progressively increased the cash rate between May 2022 and November 2023. The cash rate was held flat throughout 2024 at 4.35 per cent. On 18 February 2025, the RBA reduced the cash rate by 25 basis points to 4.10 per cent, and on 20 May 2025, again reduced the cash rate by 25 basis points to 3.85 per cent. On 12 August 2025, the RBA further reduced the cash rate by 25 basis points to 3.60 per cent where it currently remains. These monetary policy changes are illustrated in Figure 7.1.

Figure 7.11: Reserve Bank of Australia cash rate target (1995 to 2025)



Source: ERA analysis based on Reserve Bank of Australia F1 statistical tables.

71. The ERA has determined the risk free rate for equity by:

    - Using observed yields from 10-year Commonwealth Government Security bonds.
    - Using linear interpolation of observed yields of Commonwealth Government Security bonds.

72. For this final decision the ERA estimates a risk free rate for the cost of equity of 4.34 per cent for the 20-day averaging period to 19 September 2025.

Market risk premium

73. The market risk premium is a parameter of the Sharpe-Lintner CAPM and is the expected rate of return in excess of the risk free rate that investors require to invest in a fully diversified portfolio. *Ex-ante*, investors always require a rate of return above the risk free rate to invest in a risky asset, therefore the expected market risk premium is always positive. *Ex-post*, the realised return to the market portfolio may be negative. To establish the cost of capital, the ex-ante market premium is relevant.

74. The market risk premium compensates an investor for the systematic risk of investing in a fully diversified portfolio. Systematic risk is risk that cannot be diversified away by investors because it affects all firms in the market. This is a forward-looking concept.

75. For this final decision, the ERA has applied a market risk premium of 6.1 per cent consistent with the gas rate of return instrument to determine the rate of return.

Equity beta

76. The equity beta is a parameter that measures the systematic risk of a security or a portfolio in comparison to the market as a whole.

77. Equity beta is the slope parameter β_i in the Sharpe-Lintner CAPM. The slope parameter β_i correlates a specific asset's return in excess of the risk free rate of return, to movements in the return on the market portfolio.

78. For this final decision, the ERA has applied an equity beta of 0.7 consistent with the gas rate of return instrument to determine the rate of return.

Inflation

79. Inflation is the rate of change in the general level of prices of goods and services.

80. Forecast inflation can be used to translate the nominal post-tax WACC to a real post-tax WACC.

81. Consistent with the gas rate of return instrument, the ERA estimated the expected inflation rate using the Treasury bond implied inflation approach. This approach uses the Fisher equation[29] and the observed yield of:

    - Five-year Commonwealth Government Securities, which reflect a market-based estimate of the nominal risk free rate.
    - Five-year Treasury indexed bonds, which reflect a market-based estimate of the real risk free rate.

82. The Treasury bond implied inflation approach uses linear interpolation to derive the daily point estimates of both the nominal five-year risk free rate and the real five-year risk free rate, using the Fisher equation.

83. The ERA considers that the term of expected inflation should be five years, consistent with the length of the access arrangement period as it offers the best estimate of what inflation is expected to be over the access arrangement period.

84. The revenue model takes the best estimate of the five-year inflation forecast out (of the nominal WACC) and puts back in the actual inflation over the five-year access arrangement period (through the indexation of the regulatory asset base).

85. For this final decision, the ERA has used a 20-day averaging period to 19 September 2025 to determine a forecast inflation of 2.21 per cent to estimate the rate of return.

Value of imputation credits (gamma)

86. The imputation tax system prevents corporate profits from being taxed twice. Under the Australian imputation tax system, franking credits are distributed to investors at the time that dividends are paid and provide an offset to those investors' taxation liabilities.

[29] The formal Fisher equation is: $1 + i = (1 + r)(1 + \pi^e)$ where: i is the nominal interest rate, r is the real interest rate and π^e is the expected inflation rate.

87. The gamma parameter accounts for the reduction in the effective corporate taxation that is generated by the distribution of franking credits to investors. Generally, investors who can use franking credits will accept a lower required rate of return, before personal tax, on an investment that has franking credits, compared with an investment that has similar risk and no franking credits.

88. Consistent with the gas rate of return instrument, for this final decision the ERA has applied a gamma of 0.5 to determine the rate of return, which will be fixed for AA6.

Final decision on rate of return

Changes in economic and financial conditions

89. The ERA notes the comments made by NewGen that the WACC estimate and forecast for the AA6 period would partly depend on any changes in the market conditions between the draft and final decisions.

90. The ERA's gas rate of return instrument is binding for gas networks. As a binding instrument, the gas rate of return instrument uses market information to estimate the prevailing returns that compensate investors for holding assets with a similar risk of return as the regulated asset.

91. Changing economic and financial conditions are important factors in determining DBP's cost of capital on the capital base and drive a large increase in the proposed revenue and tariff.

Rate of return for AA6

Based on the gas rate of return instrument and the above assessments, the ERA has calculated the rate of return in

92. Table 7.88. For this final decision the ERA determines:

- The nominal after tax cost of equity as 8.610 per cent.
- The nominal cost of debt as 5.896 per cent.
- The nominal after tax rate of return as 7.12 per cent.

Required amendment 7.1

The return on capital base must reflect the weighted average cost of capital parameters in Table 7.88 of Final Decision Attachment 7.

Table 7.88: ERA final decision rate of return estimate for AA6

Component	DBP's revised proposal	ERA final decision
Return on debt (%)		
5-year interest rate swap (effective yield)	3.787	3.778
Debt risk premium (10-year average)	1.870	1.830
Debt issuing cost	0.165	0.165
Debt hedging cost	0.123	0.123
Nominal return on debt	*5.945*	*5.896*
Return on equity		
Nominal risk free rate (%)	4.37	4.34
Market risk premium (%)	6.1	6.1
Equity beta	0.7	0.7
Nominal return on equity (%)	*8.64*	*8.61*
Other parameters		
Debt proportion (%)	55	55
Inflation rate (%)	*2.06*	*2.21*
Corporate tax rate (%)	30	30
Franking credits	0.5	0.5
Nominal after-tax WACC (%)	**7.16**	**7.12**
Real after-tax WACC (%)	4.99	4.80

Source: ERA analysis; DBP AA6 revised tariff model.

Taxation

93. The ERA has assessed DBP's amended estimated cost of corporate income tax for each regulatory year in AA6 against the requirements in rule 87A of the NGR.

94. The ERA accepts the values that DBP has used for:

- The expected statutory income tax rate for each regulatory year in AA6 of 30 per cent. This value is consistent with current expectations for the statutory company tax rate over the access arrangement period.
- Allowed imputation credits (gamma) of 0.5 in accordance with the gas rate of return instrument.

95. A tax building block is included in the annual revenue requirement estimate for each year.

96. The taxation cost is calculated by multiplying the estimated taxable income by the statutory income tax rate of 30 per cent. The estimated taxation payable is calculated by deducting the value of imputation credits.

Tax asset lives

97. The ERA has reviewed DBP's proposed tax asset lives, as detailed in Table 7.33 (above). DBP proposes the same tax asset lives for new capital expenditure in AA6.

98. The ERA accepts maintaining the existing tax asset lives for capital assets over AA6 as they are still consistent with Australian Taxation Office schedules.

Tax asset base

99. The ERA has reviewed DBP's assumptions and calculations and is satisfied that the calculations have been carried out consistently with the method and tax asset lives approved in AA5.

100. DBP continues to apply the diminishing value method to calculate tax depreciation of assets purchased from 1 January 2021 onwards in accordance with the AA5 final decision.

101. We accept that DBP used the roll forward method to establish the opening value of the tax asset base for each regulatory year in AA6:

- The opening tax asset base for the first regulatory year in AA6 (2026) was calculated by rolling forward the closing value of the actual tax asset base for AA5.
- The ERA calculated the closing value of the tax asset base for each regulatory year in AA5 using the method that was determined in the final decision for AA5.

102. The tax asset base calculated by the ERA for each regulatory year in AA5 is set out in Table 7.99.

Table 7.99: ERA's final decision actual tax asset base for AA5 ($ million, nominal)

	2021	2022	2023	2024	2025
Opening tax asset base	945.0	872.0	796.9	724.9	636.8
Capital expenditure	37.0	41.5	49.1	39.5	38.8
Asset disposal	-	-	-	-	-
Tax depreciation	110.0	116.7	121.1	127.7	129.4
Closing value	**872.0**	**796.8**	**724.9**	**636.7**	**546.2**

Source: ERA analysis.

103. The ERA calculates the closing value for the forecast tax asset base for each regulatory year in AA6 using the following method:

Opening value (equal to the closing value for the previous regulatory year),

plus: forecast capital expenditure (net of capital contributions) incurred in the regulatory year;

less: depreciation based on forecast capital expenditure incurred in using the diminishing value method for assets purchased on or after 1 January 2021;

less: forecast asset disposals during AA6.

104. The forecast tax asset base calculated by the ERA in this final decision for each regulatory year in AA6 is set out in Table 7.1010.

Table 7.1010: ERA's final decision forecast tax asset base for AA6 ($ million, nominal)

	2026	2027	2028	2029	2030
Opening tax asset base	546.2	473.9	428.3	373.5	343.3
Capital expenditure	55.8	69.0	61.3	55.1	39.4
Asset disposal	-	-	-	-	-
Tax depreciation	128.0	114.7	116.2	85.3	86.9
Closing value	**474.0**	**428.2**	**373.4**	**343.3**	**295.8**

Source: ERA analysis.

Estimated cost of corporate income tax

105. The ERA has estimated the cost of corporate income tax based on its considerations above. The annual estimates for the cost of corporate income tax are based on unsmoothed building block revenue. The estimated cost of corporate income tax will be recalculated in each year of AA6 as part of the tariff variation process. This includes the change to reflect the annually updated debt risk premium.

106. To estimate the efficient cost of corporate income tax, the ERA does not include tax impacts on the E factor incentive scheme. As we have treated the revenue adjustments from this incentive mechanism as both revenue and expense for tax purposes, this results in a netting off outcome, meaning that it is redundant for the incentive outcomes to be recorded in the tax calculations of the tariff model and are not included accordingly.

107. The ERA's final decision calculation of the estimated cost of corporate income tax (net of imputation credits) for each regulatory year in AA6 is set out in Table 7.1111.

Table 7.1111: ERA's final decision calculation of the estimated cost of corporate income tax for AA6 ($ million, nominal)

	2026	2027	2028	2029	2030
Unsmoothed revenue	468.9	497.8	504.4	510.3	522.9
Tax expenses					
Operating expenditure	(115.3)	(133.7)	(136.2)	(135.7)	(143.0)
Debt servicing cost	(114.0)	(112.9)	(112.1)	(110.8)	(109.2)
Tax depreciation	(128.0)	(114.7)	(116.2)	(85.3)	(86.9)
Total tax expenses	**(357.3)**	**(361.3)**	**(364.5)**	**(331.7)**	**(339.1)**
Tax					
Estimated taxable income	111.6	136.5	139.9	178.6	183.7
Carried forward tax loss	0	0	0	0	0
Estimated taxable income (net of tax loss)	111.6	136.5	139.9	178.6	183.7
Estimated cost of corporate income tax	33.5	40.9	42.0	53.6	55.1
Value of imputation credits	(16.7)	(20.5)	(21.0)	(26.8)	(27.6)
Estimated cost of corporate income tax	**16.7**	**20.5**	**21.0**	**26.8**	**27.6**

Source: ERA analysis.

Required amendment 7.2

The estimated cost of corporate income tax must be amended in accordance with the values set out in Table 7.1111 of Final Decision Attachment 7.

Incentive mechanism

108. Rule 98 of the NGR allows the ERA to approve, or require, the inclusion of an incentive mechanism in the access arrangement to encourage efficiency in the provision of pipeline services by the service provider. An incentive mechanism may provide for the carryover of efficiency gains and efficiency losses from one access arrangement period to the next; and must be consistent with the revenue and pricing principles.[30]

109. Increases or decreases resulting from the operation of an incentive mechanism are included as a building block component in the determination of total revenue under rule 76(d) of the NGR.[31]

[30] Revenue and pricing principles as set out in section 24(3) of the NGL.

[31] The ERA's determination of total revenue is set out in Final Decision Attachment 3.

Application of E Factor for AA5

110. DBP has reassessed the application of the E Factor for AA5 in its response to the ERA's draft decision. In support of its proposed revised negative efficiency carryover of $52.3 million ($ real) DBP submitted:

- It has concerns about the E Factor scheme and its interaction with the ERA's decisions on base year operating expenditure, which significantly reduced the approved base year amount carried over to 2026 (the first year of AA6). DBP considers that it is over penalised because of this.
- It acknowledges the impact of its labour cost rate update in its proposed higher base year operating expenditure and to reduce the negative price impact, it proposes to include a share of the impact ($2.3 million) in the calculation of the E Factor carryover.
- While accepting the ERA's draft decision on inspections and other asset management expenditure, it proposes that a subset of this expenditure ($1.6 million) still be excluded from the carryover calculation on the basis that these costs were unexpected costs outside of DBP's control.[32]

111. DBP's revised E Factor calculation is set out in Table 7.1212 and Table 7.1313 (below), which sets out the calculation of the E Factor benchmarks and carryover amount, respectively.

Table 7.1212: DBP proposed revised E Factor benchmarks for AA5 ($ million, real 31 December 2024)

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

Source: DBP, Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives, August 2025, Table 1.4.

[32] DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025.

Table 7.1313: DBP proposed revised E Factor calculation ($ million, real 31 December 2024)

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

Source: DBP, Revised Final Plan 2026-2030, Attachment 12.1A: OPEX Incentive Scheme Model, August 2025.

Change in capitalisation policy

112. DBP's revised proposal to reduce the adjustment for the change in capitalisation policy from $7.7 million in its initial proposal to $2.3 million in its revised proposal is subject to DBP's additional costs attached to the labour cost rate being approved in the base year operating expenditure for 2026 in full.[33]

113. The ERA's consideration of DBP's revised proposal for operating expenditure is set out in Final Decision Attachment 5. In summary, the ERA has not approved DBP's labour cost rate update because it considered that, as per the draft decision, DBP had not provided any additional justification that was acceptable. Rather, DBP provided benchmarking data that only reinforced the ERA's draft decision position.

114. Given our final decision on operating expenditure and the conditions set out by DBP in its revised proposal for the E Factor, the ERA has not accepted DBP's proposed $2.3 million E Factor benchmark adjustment in 2024 for the change in capitalisation policy. Instead, the ERA's final decision is to maintain its draft decision, which accepted an amount of $7.7 million. While this decision does lower the negative efficiency carryover amount, it is consistent with the provisions of the E Factor scheme. That is, where there is a change in approach to classifying costs as either capital or operating expenditure during the access arrangement period, the scheme requires an adjustment to the E Factor benchmark to ensure consistency with any capitalisation policy changes, so that outcomes under the efficiency scheme are not affected by the change in capitalisation policy.

[33] DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025, p. 7.

Expenditure for unforeseen asset corrosion

115. DBP has proposed to exclude a subset of inspections and other asset management expenditure from the E Factor calculation for AA5 (rather than the whole category of expenditure as initially proposed). DBP submits that the proposed $1.6 million to be excluded was "mainly due to unforeseen corrosion defects found during periodic integrity inspection of assets, including water-bath heaters, where the scope of the inspection was expanded to include removal of outer insulation material for 100% inspection and the required rectification of defects".[34] DBP further states that the $1.6 million was not included as part of the original benchmark for AA5 and "penalising DBP under the efficiency scheme for undertaking this work, which has been essential to maintaining the safety and integrity of the pipeline, would not be reasonable".

116. The ERA sought additional information from DBP to verify the statements made.[35] Based on the additional information provided by DBP, the ERA is still not satisfied that DBP has adequately justified the exclusion of this cost. While we are satisfied that the work to rectify the asset corrosion was necessary, we have not viewed any information that conclusively demonstrates that the cost for such work had not already been included in the base year operating expenditure approved for AA5. Therefore, the ERA cannot be reasonably satisfied that the $1.6 million that DBP proposes to exclude from the operating expenditure allowance for 2024 was not part of the E Factor benchmark for AA5.

117. In any case, an amount of $1.6 million is not materially significant (representing approximately 2 per cent of the allowance set for 2024 and 0.3 per cent of the total AA5 allowance). The regulatory framework provides for the approval of a forecast amount of efficient operating expenditure that is needed to operate the pipeline (a "bucket" of efficient operating expenditure). During an access arrangement period a service provider would experience "unders and overs" in forecast operating expenses and that such variances can and should be managed within the approved operating expenditure allowance (unless the variance is materially significant).

118. For the reasons set out above, the ERA's final decision is to not approve DBP's revised proposal to exclude $1.6 million from the calculation to determine the E Factor benchmarks to apply for AA5 and to be used to calculate the E Factor carryover.

Final decision on AA5 E Factor carryover

119. The ERA's final decision E Factor calculation for AA5 is set out below (Table 7.1414 and Table 7.1515), which results in a negative efficiency carryover of $36.9 million.

[34] DBP, *Revised Final Plan 2026-2030, Attachment 12.2: Response on Incentives*, August 2025, p. 8.

[35] Information Request ERA17.

Table 7.1414: ERA final decision adjusted AA5 E Factor benchmarks and amounts ($ million, real 31 December 2024)

	2021	2022	2023	2024	2025
Opex allowance applicable to E Factor (E Factor benchmark)					
Total opex allowance	**110.6**	**107.4**	**106.4**	**93.6**	**95.6**
Approved adjustments:					
Movement in provisions [AA5 clause 15.11(a)]	6.4	0.5	0.8	(0.0)	0.0
Capitalisation policy changes [AA5 clause 15.12]				7.7	
Adjusted total opex allowance	**117.0**	**107.9**	**107.2**	**101.3**	**95.6**
Less excludable costs: [AA5 clause 15.11(b)]					
System use gas (fuel gas)	24.5	23.5	22.1	16.5	16.0
Turbine / GEA overhauls	10.3	8.4	8.4	1.2	2.5
E Factor benchmark	**82.2**	**76.0**	**76.7**	**83.6**	**77.1**
Actual/estimated opex application to E Factor					
Total actual/estimated opex[Note1]	109.4	103.2	106.9	117.1	-
Less excludable costs:					
System use gas (fuel gas)	26.7	25.6	25.8	24.6	-
Turbine / GEA overhauls	8.0	11.0	10.0	5.3	-
Actual opex for E Factor purposes	**74.7**	**66.6**	**71.0**	**87.2**	**80.6**

Note1: Actual/estimated opex is inclusive of the opex related to movement in provisions and capitalisation policy changes. Actual opex is listed for years 2021 to 2024. As 2025 actual expenditure is unknown at the time of this decision and consistent with AA5 clause 15.7, 2025 opex was estimated to maintain the same value of efficiency gain or loss as in 2024 which equates to a zero incremental change from 2024.

Source: ERA, Revenue Model, December 2025.

Table 7.1515: ERA final decision E Factor carryover calculation ($ million, real 31 December 2024)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
E Factor benchmark (A)	82.2	76.0	76.7	83.6	77.1					
Actual opex (B)	74.7	66.6	71.0	87.2	80.6					
Annual saving (C = A – B)	7.5	9.4	5.7	(3.6)	-					
Incremental saving ($C_n = C_n – C_{n-1}$)	7.5	1.9	(3.7)	(9.2)	-					
E Factor carryover amounts										
Year 1		7.5	7.5	7.5	7.5	7.5				
Year 2			1.9	1.9	1.9	1.9	1.9			
Year 3				(3.7)	(3.7)	(3.7)	(3.7)	(3.7)		
Year 4					(9.2)	(9.2)	(9.2)	(9.2)	(9.2)	
Year 5						-	-	-	-	-
Total carryover amount (E Factor "building block")						(3.6)	(11.1)	(13.0)	(9.2)	-
										Total: (36.9)

Source: ERA, Revenue Model, December 2025.

Required amendment 7.3

In accordance with the calculations set out in Table 7.1414 and Table 7.1515 of Final Decision Attachment 7, a negative efficiency carryover of $36.9 million (real as at 31 December 2024) must be applied in AA6.

E Factor for AA6

120. DBP's revised proposal accepted the ERA's draft decision required amendments 7.4 and 7.5 to amend section 15 of the access arrangement to clarify the provisions of the E Factor (exclusions and adjustments) and set out the E Factor benchmarks that will apply for AA6.

121. The ERA is satisfied that DBP has made the required amendments in the revised proposed access arrangement.

122. The ERA has assessed DBP's revised forecast operating expenditure for AA6 in Final Decision Attachment 5. The ERA's approved forecast of efficient operating expenditure has been used to calculate the E Factor benchmarks to apply for AA6. As per the provisions of the E Factor scheme as determined by this final decision, the forecast operating expenditure ("total forecast opex") used to calculate the E Factor benchmarks may be adjusted for:

- Movement in provisions (for example, employee leave provisions).
- Additional conforming operating expenditure that was incurred for the purpose of reducing capital expenditure.
- An approved cost pass through event which applies in respect of that year.
- Capitalisation policy changes.
- Any other operating expenditure amount that the ERA agrees or requires to be excluded.

123. The E Factor benchmarks for AA6, calculated as part of this final decision, are set out in Table 7.1616.

Table 7.1616: ERA final decision E Factor benchmarks for AA6 ($ million, real 31 December 2024)

	2026	2027	2028	2029	2030
Total forecast opex[Note1]	110.3	125.2	124.8	121.6	125.5
Less excluded cost categories:					
System use gas	21.7	26.6	31.2	31.5	33.5
GEA/turbine overhauls	4.9	8.8	4.5	6.9	7.8
E Factor benchmark	**83.8**	**89.8**	**89.1**	**83.3**	**84.2**

Note1: Adjustments to total forecast opex are provided for under clause 15.11 of the access arrangement approved by the ERA.

Source: ERA, Revenue Model, December 2025.

Required amendment 7.4

The E Factor benchmarks to apply for AA6, as set out in section 15 of the access arrangement, must be updated to reflect the benchmarks set out in Table 7.1616 of Final Decision Attachment 7.

Appendix 1 List of Tables

Appendix 2 List of Figures