EMCa

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Dampier Bunbury Natural Gas Pipeline (DBNGP)

REVIEW OF DBNGP REVISED ACCESS ARRANGEMENT (AA6) 2026 - 2030

Public Version

Report prepared for:

ECONOMIC REGULATION AUTHORITY (ERA) OF WESTERN AUSTRALIA

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Preface

This report has been prepared to assist the Economic Regulation Authority (ERA) with its assessment of DBNGP Transmission Pty Ltd's (DBP) Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP), for the period from 1st January 2026 to 31st December 2030 (AA6), which it is required to conduct in accordance with the National Gas Law and the National Gas Rules (NGR). This report covers a particular and limited scope as defined by the ERA and should not be read as a comprehensive assessment of proposed expenditure that has been conducted making use of all available assessment methods.

This report relies on information provided to EMCa by the ERA and by DBP up until 2 October 2025. EMCa disclaims liability for any errors or omissions, for the validity of information provided to EMCa by other parties, for the use of any information in this report by any party other than the ERA and for the use of this report for any purpose other than the intended purpose.

In particular, this report is not intended to be used to support business cases or business investment decisions nor is this report intended to be read as a definitive legal interpretation of the NGR or other legal instruments. EMCa's opinions in this report include considerations of materiality to the requirements of the ERA and opinions stated or inferred in this report should be read in relation to this over-arching purpose.

Some numbers in this report may differ from those shown in DBP's Revised Access Arrangement Information (AAI) or other documents due to rounding.

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ABBREVIATIONS

Term	Definition
AER	Australian Energy Regulator
AAI	Access Arrangement Information
AGIG	Australian Gas Infrastructure Group
AGID	Australian Gas Infrastructure Developments
AGN	Australian Gas Network
AMP	Asset Management Practice
CBA	Cost Benefit Analysis
DA	Development application
DBNGP	Dampier to Bunbury Natural Gas Pipeline
DBP	Dampier Bunbury Pipeline
DD	ERA's Draft Decision
DMIRS	Department of Mines, Industry Regulation and Safety
DMZ	Demilitarised Zone (refers to Maximo software)
DNSP	Distributed Network Service Provider
EOT	End of Trip
ERA	Economic Regulation Authority
ERP	Enterprise Resource Planning
FHE	Full Haul Equivalent
FTE	Full-time Equivalent
GC	Gas Chromatograph
GEA	Gas Engine Alternator
GIP	Good Industry Practice
HR	Human Resources
HSE	Health, Safety, and Environment
ICT	Information and Communications Technology
ILI	In Line Inspections
IR	Information Request
IT	Information Technology
KPI	Key Performance Indicators
MDQ	Maximum Daily Quantity
MLV	Main Line Valves
NGL	National Gas Laws
NGO	National Gas Objective
NGR	National Gas Rules
OEM	Original Equipment Manufacturers
OHS	Occupational Health and Safety
OPC	Opinion of Probable cost
PMO	Project Management Office
RAB	Regulatory Asset Base
RP	Regulatory Proposal

Term	Definition
RTU	Remote Terminal Unit
SAPN	South Australia Power Network
SCADA	Supervisory Control and Data Acquisition
SIB	Stay in Business
STIP	Service Target Performance Incentive Scheme
SUG	System Use Gas
TBS	Transmission Billing System

EXECUTIVE SUMMARY

Introduction

1. The Economic Regulation Authority (ERA) has asked us to provide technical advice to assist with its assessment of DBP's revised proposal for the access arrangement for Dampier Bunbury Natural Gas Pipeline (DBNGP) from 2026 to 2030. The requested technical advice covers a range of matters that can affect the capital and operating expenditure proposed by DBP, comprising those aspects of ERA's Draft Decision on these matters, that DBP has not accepted.
2. Our review is based on information that DBP provided and on aspects of the National Gas Rules (NGR) that apply in Western Australia relevant to assessment of regulatory expenditure allowances.

AA5 conforming capex

DBP's revised proposal

3. In its Revised Proposal, DBP proposes that AA5 capex of $211.8m is conforming. This is $1.0m less than it initially proposed but $18.7m more than ERA's Draft Decision. Other than for the items referred to below, DBP's Revised Proposal aligns with ERA's Draft Decision.

Assessment

DBP has re-proposed the actual costs of its One ERP SAP S/4HANA project but we remain of the view that a proportion of this expenditure is not conforming

4. In its Draft Decision, ERA's main concern was with DBPs proposal to accept all of the cost of its OneERP SAP S/4HANA project as conforming capex, despite this project suffering from problematic delivery and a very significant cost overrun. In its Revised Proposal, DBP acknowledges that its budget for this project was severely understated and has provided additional information that assists with our assessment.
5. We remain of the view that not all of DBP's expenditure meets the relevant criteria for inclusion as Conforming Capex but, from new information that DBP has provided, we have derived an updated (higher) estimate for the portion that can be considered Conforming Capex.

The reduced amount that DBP now proposes for Buildings, is conforming

6. DBP has proposed a reduced amount for 'building', and which comprises lower expenditure than it initially proposed for work in preparation for Jandakot site redevelopment. We consider that this reduced amount is reasonable.

We do not accept DBP's contention to set aside provisions of its Reference Service contract, and therefore consider that a proportion of its expenditure on meter stations is not conforming

7. DBP has re-proposed the expenditure on metering stations that it had proposed in its Initial Proposal. However, we remain of the view that some such work does not meet the Conforming Capex criteria because it fails to account for the distinction in the DBP's Reference Service Contract between Existing Stations and other stations.

AA5 alternative conforming capex

8. We consider that a reasonable alternative amount for conforming capex is $205m, which is $6.8m (3.2%) less than DBP's Revised Proposal.

AA6 forecast capex

DBP's revised forecast

DBP's Revised Proposal for $262m is $26m less than it initially proposed but $42.1m more than ERA's Draft Decision

9. DBP's Revised Proposal for AA6 capex is $262m, which is $26m less than it initially proposed but $42.1m more than ERA's Draft Decision. The main areas of difference between DBP's Revised Proposal and ERA's Draft Decision are:

- **Buildings:** ERA considered that DBP had not justified the level of its proposed expenditure to redevelop its Jandakot site and determined a significantly lower amount derived from DBP's previous estimate. DBP has challenged this and has re-proposed the initial amount. While DBP has reduced its proposal for one other project (northern depot), in aggregate its Revised Proposal for buildings is $23.5m more than ERA's Draft Decision
- **Computers and motor vehicles.** In its Draft Decision, ERA allowed $15.0m less than DBP had proposed. In its Revised Proposal, DBP has reduced its proposal by $4.9m, but this is still $10.1m more than ERA's Draft Decision.
- **Compression**. In its Revised Proposal, DBP has reduced its forecast for compression assets by $5.6m, but this is still $3.8m more than ERA's Draft Decision
- **Metering and corrosion protection.** In its Draft Decision, ERA allowed $13m less for metering and $3.2m less for corrosion protection than DBP had proposed. DBP has reassessed its forecasts for both categories and has reduced them by $10.8m and $0.8m respectively, however in aggregate its revised forecast across these two categories is still $4.7m more than ERA's Draft Decision.

10. For remaining categories, DBP's revised forecast aligns with ERA's Draft Decision.

Compression

DBP has significantly reduced its proposal, which is now more closely aligned with ERA's Draft Decision

11. In its Revised Proposal, DBP provides evidence that it has significantly reworked its forecast for compression to account for issues that ERA identified in its Draft Decision. With two minor exceptions, we consider that its reduced forecast is now reasonable.

Metering and Corrosion Protection

DBP has significantly reduced its proposed forecast for metering. However, we do not accept DBP's contention to set aside provisions of its Reference Service contract for work at meter stations, and we consider that its forecast is overstated for this reason.

12. For metering, DBP provides evidence of having reworked its forecast and this has resulted in a considerably lower revised forecast. DBP maintains a view that applying a cost allocation for meter stations consistent with the Reference Services Contract is unworkable and has re-proposed inclusion of expenditure for stations other than Existing Stations. We consider it necessary within the scope of our mandate to recommend acceptance that aligns with the Contract; however, DBP has provided new information on the nature of some work

and which leads us to include some expenditure that, through lack of information, we had previously excluded.

13. DBP's re-proposed expenditure for corrosion protection assets is at meter stations, and our assessment is as described above for metering

Information Technology (IT)

DBP has reduced its forecast for IT capex and we now consider that this is reasonable

14. For its revised IT proposal, DBP has now undertaken a project- by-project risk/prioritisation assessment of need and has reduced its forecast accordingly. We consider that this addresses the substance of concerns that we identified in our Initial Report and that DBP's reduced forecast is reasonable.

15. DBP has also reviewed and now reduced its forecast for application enhancements and has provided explanations that we consider now justify these reduced amounts.

Motor vehicles

DBP's re-proposed forecast remains overstated

16. For fleet vehicle replacements, DBP has reproposed its initial forecast. We consider that the additional information that DBP has provided does not justify its proposed expenditure and we maintain the position expressed in our Initial Report, that its forecast is overstated.

Buildings

DBP has re-proposed I capex forecast for Jandakot, but has proposed a reduced forecast for Northern Hub

17. DBP has challenged ERA's Draft Decision for two projects:

- Jandakot site redevelopment
- Northern hub at Karratha.

DBP has provided additional information which we consider now supports its proposed Jandakot redevelopment and associated cost. However, its proposal is overstated because it has not allowed for significant use of this facility for non-DBNGP purposes

18. In its Draft Decision, ERA determined that DBP had not justified the scope, scale and level of expenditure that it proposed to redevelop its Jandakot site. In its Revised Proposal, DBP has re-proposed the same amount that it initially proposed and has provided additional information. We consider that this information now provides a reasonable justification for DBP's proposal and its associated cost, but that DBP has not accounted for the joint use of this facility for DBNGP and for AGIG's wider business interests.

DBP's considerably reduced amount for Northern Hub redevelopment is justified

19. DBP has reduced its forecast expenditure from $2.0m to $0.6m, to now encompass only planning and assessment to support consideration of this development in AA7. We consider that this reduced amount is justified.

AA6 alternative capex forecast

Our proposed alternative forecast is more than ERA's Draft Decision, but $8.6m less than DBP proposes in its Revised Proposal.

20. In its Revised Proposal, DBP has proposed capex that is $26m less than it initially proposed. Our proposed alternative forecast is $250.9m, which is $11.1m (4.2%) less than DBP proposes in its Revised Proposal.

AA6 forecast opex

DBP's revised forecast

DBP's Revised Proposal 622m is $87m more than ERA's Draft Decision

21. DBP proposes a revised AA6 opex allowance of $622.3m. This would represent around $30m less than DBP Initial Proposal but $87m more than ERA's Draft Decision.

Assessment

The significant increase in opex that DBP presents as its base year value overstates the efficient base year amount that should underpin a BST forecast

22. We consider that DBP's revised proposed allowance is not reasonable. As was the case with its Initial Proposal, our main concern is that DBP has significantly increased its 2024 'base year' value for wages and salaries to reflect an accounting change that we consider to inequitably reallocate a significantly higher proportion of these costs to DBNGP, in favour of its non-regulated activities. Information that DBP has provided in its Revised Proposal reinforces our finding on this.

23. Together with other adjustments, this results in a base year amount that is significantly higher than the relatively stable opex it has incurred for many years.

DBP has proposed reduced step change amounts and has re-proposed its initial bottom-up amounts

24. We consider that DBP has adequately justified its proposed (relatively small) increase in insurance costs. However, DBP has been unduly selective in applying reductions to proposed IT opex step changes and in aggregate these remain overstated.

25. For bottom-up opex, DBP has re-proposed its initially proposed amounts for GEA Turbine Overhauls and for Station inspections. We consider that its proposal for GEA turbine overhauls is now reasonable, but that its proposed amount for Station Inspections is overstated.

26. In aggregate, we consider that DBP's Revised Proposals for step changes and bottom up opex remain overstated.

AA6 alternative opex forecast

A reasonable forecast is $557.6m, which is $22.6m more than ERA's Draft Decision but $64.7m less than DBP's Revised Proposal

27. We consider that a reasonable alternative AA6 opex allowance would amount to $557.6m over the period, which is 10% less than DBP's Revised Proposal.

1 INTRODUCTION

The Economic Regulation Authority (ERA) has asked us to provide technical advice to assist with its assessment of DBP's revised proposal for the access arrangement for Dampier Bunbury Natural Gas Pipeline (DBNGP) from 2026 to 2030. The requested technical advice covers a range of matters that can affect the capital and operating expenditure proposed by DBP, comprising those aspects of ERA's Draft Decision on these matters, that DBP has not accepted.

Our review is based on information that DBP provided and on aspects of the National Gas Rules (NGR) that apply in Western Australia relevant to assessment of regulatory expenditure allowances.

1.1 Purpose and scope of requested work

1.1.1 Purpose

28. The Economic Regulation Authority (ERA), in accordance with its responsibilities under the National Gas Law (NGL) and the National Gas Rules (NGR), is currently reviewing Dampier Bunbury Pipeline (DBP) access arrangement (AA) proposal for the Dampier to Bunbury Natural Gas Pipeline (DBNGP) for the 5-year period from 1 January 2026 to 31 December 2030 (AA6).

29. In Western Australia, the *National Gas Access (WA) Act 2009* amends and implements the NGL ('the NGL (WA)'). The NGL WA gives effect to a modified version of the NGR as relevant to gas access regulation in WA ('the NGR (WA)'). For simplicity, and unless otherwise designated, references in this report to NGR shall mean NGR (WA).

30. ERA has issued a Draft Decision on DBP's Initial Proposal and DBP has subsequently provided a Revised Proposal.[1] To assist with its further assessment and final decision, the ERA has engaged Energy Market Consulting associates (EMCa) to review and provide technical advice on those aspects of ERA's Draft Decision with respect to capital and operating expenditure (capex and opex), that DBP has not accepted.

31. The results of our technical assessment are set out in this report.

1.1.2 Scope of the review

32. In regard to DBP's expenditure, the overarching objective of this review is to assist the ERA to determine whether the actual capex incurred, or to be incurred, by DBP in AA5 and its proposed capex for AA6 complies with the criteria set out in rule 79 of the NGR and whether its proposed opex for AA5 complies with rule 91(1). Whilst we have not been requested by the ERA to document compliance of the capex and opex proposals with the individual rules and tests included in the NGR as a part of our assessment, to the extent that we consider that such expenditure does not comply, the ERA has sought our technical advice on adjusted expenditures that could be considered to comply.

33. In carrying out this review, the ERA has asked us to evaluate additional information DBP provided to support its Revised Proposals for AA5 and AA6 capex and for AA6 opex.

34. Throughout this report, we refer to DBP's Initial Proposal as the proposal information that DBP submitted to ERA in January 2025 and we refer to our Initial Report as the report that

[1] We use the term Revised Proposal within this document as a general term to cover references to DBP's 'Revised Final Plan' and the suite of associated documents and models that it has provided to ERA for consideration. We refer to DBP's proposal

we submitted to ERA on DBP's Initial Proposal, and which ERA published alongside its Draft Decision.

1.2 Our review approach

35. In undertaking our review, we:

- Completed a desktop review of the additional information provided to us by the ERA, being primarily DBP's Revised Proposal documents and models
- Prepared requests for information to DBP to help ensure that we correctly understood the methodology and assumptions that DBP had applied in estimating its expenditure requirements
- Undertook an assessment of relevant aspects of the proposed expenditure, including by taking into account the responses from DBP to information requests - our review considers the requirements of the NGR, specifically the capex and opex criteria and objectives
- Documented our findings in this report.

36. We also provided feedback to ERA staff on our preliminary findings, while drafting this report.

37. Our review has placed emphasis on those matters that are of greatest significance in driving the level of reference tariffs the ERA has been asked to approve. Accordingly, we have deepened our assessment process on such components of proposed expenditure to provide the ERA with the necessary supporting evidence and supporting logic on matters of most significance. Our review does not, nor is it intended to, represent an expenditure approval process and the specific projects, programs, and activities that DBP chooses to undertake are matters for DBP's management judgment.

38. Where we find that DBP's proposed expenditure is not reasonable in terms of the relevant requirements of the NGR, we have identified the extent to which the issues we have found have resulted or may result in a higher level of expenditure than what would be required of a prudent and efficient service provider.

39. To the extent that there may be implications for aspects of DBP's access arrangement that are beyond our scope, we have included additional observations in some areas that we trust may assist the ERA with its own assessment.

1.2.1 Technical review

40. Our assessment comprises a technical review. While we are aware of stakeholder inputs and the wider regulatory context within which DBP operates, our technical assessment framework is based on engineering considerations and economics. To the extent that we have needed to interpret the application of regulatory legal instruments, we have stated our assumptions, but we do not hold ourselves to be regulatory legal advisors.

41. We have sought to assess DBP's expenditure proposal based on DBP's analysis and DBP's own assessment of technical requirements and economics and the analysis and other information that it has provided to support its proposal. Our findings are therefore based on the information made available to us for review and, except for the purpose of understanding, we have not sought to undertake parallel or separate analysis nor have we actively sought information from other parties.

42. We have been provided with a range of reports, internal documents and responses to information requests in support of what DBP has proposed and our assessment takes account of this range of information provided. To the extent that we found discrepancies in this information, our default position is to revert to DBP's regulatory submission documents as provided on its submission date, as the 'source of record' in respect of what we have assessed.

1.3 About this report

1.3.1 Report structure

43. The following sections of our report are structured as follows:

- The assessment of DBP's revised AA5 Conforming Capex is in section 2
- The assessment of DBP's revised AA6 capex forecast is in section 3 to section 5 and our conclusion for DBP's revised AA6 capex is in section 6.
- The assessment of DBP's revised AA6 opex forecast is in section 7.

1.3.2 Information sources

44. We have examined relevant documents that DBP provided to the ERA in support of the areas of focus and projects that the ERA has designated for review.

45. Except where specifically noted, this report was prepared based on information provided to us up to 2 October 2025 and any information provided subsequent to this time may not have been taken into account.

1.3.3 Presentation of expenditure amounts

46. Expenditure is presented in this report in real terms December 2024, to be consistent with DBP's Revised Proposal, unless stated otherwise.

47. While we have sought to reconcile expenditure presented in this report to source information, in some cases there may be discrepancies in source information provided to us and minor differences due to rounding. Any such discrepancies do not affect our findings.

2 AA5 CONFORMING CAPEX

In its Revised Proposal, DBP proposes that AA5 capex of $211.8m is conforming. This is $1.0m less than it initially proposed but $18.7m more than ERA's Draft Decision.

In its Draft Decision, ERA's main concern was with DBPs proposal to accept all of the cost of its OneERP SAP S/4HANA project as conforming capex, despite this project suffering from problematic delivery and a very significant cost overrun. In its Revised Proposal, DBP acknowledges that its budget for this project was severely understated and has provided additional information that assists with our assessment. However, we remain of the view that not all of DBP's expenditure meets the relevant criteria for inclusion as Conforming Capex.

DBP has proposed a reduced amount for 'building', and which comprises lower expenditure than it initially proposed for work in preparation for Jandakot site redevelopment. We consider that this reduced amount is reasonable.

DBP has re-proposed the expenditure on metering stations that it had proposed in its Initial Proposal. For reasons that we describe in section 3, we remain of the view that some such work does not meet the Conforming Capex criteria.

For other asset categories, DBP's Revised Proposal aligns with ERA's Draft Decision.

2.1 Introduction

49. This section contains our assessment of the capex incurred (or to be incurred) by DBP in AA5.

50. We first provide an overview of the expenditure that DBP initially proposed, and now proposes for AA5, noting those aspects of ERA's Draft Decision that ERA has not accepted. In subsequent subsections, we provide our assessment of those matters that DBP has not accepted, and which exist in the following asset classes:

- Metering
- Computers and motor vehicles
- Buildings.[2]

51. In subsection 2.6 we summarise our findings on DBP's Revised Proposal for AA5 capex, and, to the extent that we consider expenditure does not meet the relevant criteria, we provide an alternative forecast.

[2] The asset categories by which we have structured our assessment, are as defined by DBP

2.2 Overview of DBP's revised proposal for AA5 Conforming Capex

2.2.1 Overview of DBP's proposal

52. DBP proposes a revised amount of $211.8m as AA5 conforming capex in rolling forward its Regulatory Asset base (RAB). This is $1.0m less than DBP proposed in its Initial Proposal, primarily due to a lower estimate for 2025, but $18.7m more than ERA's Draft Decision.

53. As can be seen in Table 2.1, DBP has accepted ERA's Draft Decision for five asset categories. DBP has accepted a reduced amount for Building but has not accepted ERA's Draft Decision for this category. DBP has rejected ERA's Draft Decision for the following two categories and has re-proposed the same amounts as in its Initial Proposal:

- Computers and Motor Vehicles
- Metering.

54. In the following three subsections, we provide our assessment of new information that DBP has provided in support of its Revised Proposal for the three asset categories for which it has not fully accepted ERA's Draft Decision.

Table 2.1: DBP Revised Proposal for conforming capex for AA5 (m, real December 2024)

Asset class	DBP Initial Proposal	ERA Draft Decision	DBP Revised Proposal	*Variance*	*Accepted?*
Building	6.9	4.9	5.9	*1.0*	*Partially*
Cathodic/Corrosion Protection	24.8	24.8	24.8	*0.0*	*Yes*
Compression	15.4	15.4	15.4	*0.0*	*Yes*
Computers and Motor Vehicles	57.0	41.2	57.0	*15.8*	*No - Reproposed*
Metering	17.0	15.2	17.0	*1.8*	*No - Reproposed*
Other Depreciable	9.7	9.7	9.7	*0.0*	*Yes*
Pipeline	3.6	3.6	3.6	*0.0*	*Yes*
SCADA, ECI And Comms	78.5	78.5	78.5	*0.0*	*Yes*
TOTAL	**212.8**	**193.1**	**211.8**	***18.7***	

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model and ERA Draft Decision information

2.3 Assessment for Metering asset class

2.3.1 DBP's revised proposal

55. In its Revised Proposal, DBP proposes $17m actual/estimated capex in the AA5 period in the Metering asset class, the same amount as it initially proposed and $1.8m more than ERA's Draft Decision.

56. As shown in Table 2.2, DBP has accepted ERA's Draft Decision in respect of metering projects with a combined value of $12.8m, and rejects ERA's Draft Decision in respect of eight projects with a combined value of $4.2m (compared with ERA's Draft Decision allowance of $2.4m).

57. In its revised business case,[3] DBP provides specific additional information on the following four projects:

- Upgrade of Odorant Facilities at Meter Stations and Kingtool filling facilities – Carnarvon meter station (CP1700017)
- Turbine meter refurbishment & replacement – Mondarra Meter Station (CP1700476)
- Burrup flow meter replacement (2024-New11)
- Cape Preston chromatograph (2024-New12)

58. For the remaining four projects shown in Table 2.2 DBP provides generic reasoning for re-proposing the original amounts.

Table 2.2: DBP's Revised Proposal for AA5 capex for the Metering asset class - $m, real December 2024

Projects	DBP Initial Proposal	ERA Draft Decision	DBP Revised AA5 Capex					
			2021	2022	2023	2024	2025	TOTAL
Accepted:								
Various projects	12.8	12.8	3.6	2.3	3.1	1.6	2.3	**12.8**
Not accepted:								
2024-New11: Burrup Fertiliser MS Flow Meter Replacement	0.2	0.0	0.0	0.0	0.0	0.2	0.0	**0.2**
2024-New12: Cape Preston Gas Chromatograph	0.2	0.0	0.0	0.0	0.0	0.2	0.0	**0.2**
2024-New9: Safe Access Upgrades to MS	0.3	0.0	0.0	0.0	0.0	0.3	0.0	**0.3**
CP1700017: Upgrade of Odorant Facilities at Meter Stations and Kingtool filling facilities	1.7	1.4	0.3	0.1	0.0	1.0	0.3	**1.7**
CP1700167: Retrofit Remote Isolation Valve Actuator @ MS -FY15/16	0.4	0.0	0.1	0.2	0.0	0.0	0.0	**0.4**
CP1700261: GC installation at producer inlets and at upstream of CS1 and CS2	0.2	0.0	0.2	0.0	0.0	0.0	0.0	**0.2**
CP1700471: New Gas Analysers	0.2	0.0	0.3	0.0	0.0	0.0	0.0	**0.2**
CP1700476: Turbine meter refurbishment & replacement	1.1	1.0	0.3	0.3	0.5	0.0	0.0	**1.1**
TOTAL DBP Proposed	**17.0**	**15.2**	**4.7**	**2.9**	**3.6**	**3.3**	**2.5**	**17.0**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

2.3.2 Background and basis for Draft Decision

59. As is shown in Table 2.2, there were eight metering projects for which ERA did not accept DBP's proposed capex. For five of these[4] ERA rejected all or part of DBP's proposed expenditure to the extent that it was not for Existing Stations and was therefore excluded

[3] Attachment 9.12 – Meter Stations (PUBLIC)

[4] 2024-New11, 2024-New12, CP1700017, CP1700167 and CP1700476

from determination as Conforming Capex in accordance with the Reference Service Contract.

60. ERA rejected DBP's proposed capex for access upgrades on the basis that DBP's information suggested that this was better characterised as maintenance work. ERA rejected DBP's proposal to include GCs at inlet points and new gas analysers on the basis that shippers are responsible for the quality of gas and that such expenditure should be recovered from shippers using the relevant inlet points.

2.3.3 Assessment of new information on costs relating to stations that are not Existing Stations

61. In its response, DBP lists the five projects that ERA rejected on the basis that they were not Existing Stations.[5] Its response on this matter is common to AA5 and AA6 projects.

62. We address DBP's response on this matter more generally in section 3.4.2, where it applies to proposed AA6 expenditure. In summary, as we state there, based solely on interpretation of the provisions of the Reference Service Contract, we consider that meter station expenditure is at the expense of relevant Shippers, unless it relates to Existing Stations.

Figure 2.1: Relevant clause from Reference Service Contract regarding charges in respect of Existing Stations

> Clause 6.12(b) of the T1 Reference Service Contract states:
>
> *"The Operator is not entitled to impose any charges under clauses 6.6, 6.8 or 6.11 or otherwise under this Contract in respect of Existing Stations, except in relation to the incremental costs of the design, installation, maintenance and operation of a modification of an Existing Station which occurred, or occurs, after 1 January 1995"*[6]

63. We have applied a literal interpretation of the terms of the Reference Service Contract, which we describe more fully in section 3.4.2. Based on our interpretation of this requirement, we maintain our assessment that expenditure other than at Existing Stations, is not Conforming Capex.

64. DBP has, however, provided some new information regarding the location of certain projects, which we consider below.

2.3.4 Assessment of new information on specific projects

2024-New 11 Burrup Fertiliser MS Flow Meter Replacement

65. The additional information does not change the factual understanding that this meter station was constructed after 1995. While there may be some system wide benefits from replacing the meter, the principal beneficiary is the shipper using that outlet point as any metering inaccuracy will directly impact that shipper and, under the Reference Service Contract, is to be charged to that shipper.

66. The additional information does not change our original recommendation.

2024-New12: Cape Preston Gas Chromatograph

67. The additional information provided justifies that DBP installed the gas chromatograph for system wide purposes and not for the shipper using the outlet point. The location was convenient as the gas chromatograph could use existing infrastructure. This expenditure is justified.

[5] Attachment 9.12 - Meter Stations (PUBLIC), table 1.1

[6] T1 Reference Service Terms and Conditions cl6.12(b)

CP1700017: Upgrade of Odorant Facilities at Meter Stations and Kingtool filling facilities

68. The additional information provided clarifies that the work was carried out at the Carnarvon Meter Station which is an Existing Station (and not at the adjacent Brown Range Meter Station which is not an Existing Station). Accordingly, the expenditure is justified.

CP1700167: Retrofit Remote Isolation Valve Actuator @ MS -FY15/16

69. The additional information provided clarifies that the location of these works was the Ngangetty Rd Meter Station which is an Existing Station. The expenditure is therefore justified.

CP1700476: Turbine meter refurbishment & replacement

70. There is no additional information provided which would justify a change to our original recommendation that a portion of this is not Conforming Capex

2024-New9: Access routes to meter stations.

71. DBP has provided new information that this project involved the decommissioning of existing roads and relocating and increasing the capacity of the relevant access roads. DBP's information indicates that this expenditure was not incurred to maintain an existing road.

72. On this basis, we consider that it is reasonable to accept this as Conforming Capex.

CP1700471: New gas analysers and CP1700261: GC installation at producer inlets and at upstream of CS1 and CS2

73. In assessing these projects in DBP's Initial Proposal, it appeared from the description that these involved forward expenditure on GC projects that DBP had proposed for AA6 (and which totalled $10.7m in that period). ERA disallowed both projects and, as we note in section 3.4.2, DBP has subsequently withdrawn its AA6 proposal for these projects.

74. In its Revised Proposal, DBP has now provided information that:

- Project CP1700471 is mislabelled, and was for '*…relocation of the existing gas chromatograph sample point at MLV7*'
- AA5 costs proposed for 'Project 1700261 '*were incorrectly ascribed to this project*' and were for '*…replacement of the end of life and out of support gas analyser at MLV011, not at a meter station*'.

75. On this basis, we consider that both projects meet the criteria for Conforming Capex.

2.3.5 Findings summary and implications

Findings summary

76. While we maintain our view that, from a technical perspective, expenditure that is not at Existing Stations does not meet the criteria as Conforming Capex, new information that DBP provides on specific projects lead us to the following conclusions:

- DBP's expenditure for projects referred to as Cape Preston gas chromatograph, Upgrade of odorant facilities, Retrofit of remote isolation valve actuator, Access routes, New gas analysers and GC installation at producer inlets can reasonably be considered Conforming Capex
- Of the remaining two projects that DBP has challenged (Burrup fertiliser flow meter replacement and Turbine meter refurbishment), we maintain our finding that the Burrup expenditure and a portion of the Turbine meter refurbishment expenditure, is not Conforming Capex.

Table 2.3: EMCa alternative forecast for AA5 Metering Conforming Capex - $m real 2024

	DBP Initial	ERA DD	EMCa DBP RRP	EMCa Adjustment	EMCa Alternative	EMCa *Adjustment (%)*
Accepted by DBP:						
Various projects	12.8	12.8	**12.8**	0.0	**12.8**	*0%*
Not accepted by DBP:						
2024-New11: Burrup Fertiliser MS Flow Meter Replcemn	0.2	0.0	**0.2**	-0.2	0.0	*-100%*
2024-New12: Cape Preston Gas Chromatograph	0.2	0.0	**0.2**	0.0	0.2	*0%*
2024-New9: Safe Access Upgrades to MS	0.3	0.0	**0.3**	0.0	0.3	*0%*
CP1700017: Upgrade of Odorant Facilities at Meter Stations and Kingtool filling facilities	1.7	1.4	**1.7**	0.0	1.7	*0%*
CP1700167: Retrofit Remote Isolation Valve Actuator @ MS - FY15/16	0.4	0.0	**0.4**	0.0	0.4	*0%*
CP1700261: GC installation at producer inlets and at upstream of CS1 and CS2	0.2	0.0	**0.2**	0.0	0.2	*0%*
CP1700471: New Gas Analysers	0.2	0.0	**0.2**	0.0	0.2	*0%*
CP1700476: Turbine meter refurbishment & replacement	1.1	1.0	**1.1**	-0.1	1.0	*-10%*
TOTAL	**17.0**	**15.2**	**17.0**	**-0.3**	**16.7**	***-1.7%***

Source: EMCa

2.4 Assessment for Computers & Motor Vehicles asset class

2.4.1 DBP's revised proposal

77. In its Revised Proposal, DBP proposes $57m actual/estimated capex in the AA5 period in the Computers and Motor Vehicles asset class, the same amount as it initially proposed.

78. As shown in Table 2.4, DBP has accepted ERA's Draft Decision in respect of projects with a combined value of $28.9m, and which was as DBP had initially proposed. DBP rejects ERA's Draft Decision in respect of its OneERP S/4HANA implementation, and re-proposes the same amount as it initially proposed, and which is $15.8m more than ERA's Draft Decision.

Table 2.4: DBP's Revised Proposal for AA5 capex for the Computers & Motor Vehicles asset class - $m. real December 2024

Project	DBP Initial Proposal	ERA Draft Decision	DBP Revised AA5 Capex					
			2021	2022	2023	2024	2025	TOTAL
Accepted:								
Various projects	28.9	28.9	6.5	4.3	3.7	5.2	9.2	**28.9**
Not accepted:								
CP1700407: OneERP S/4HANA Implementation	28.1	12.3	10.8	2.8	14.5	-0.1	0.0	**28.1**
TOTAL Revised Proposal	**57.0**	**41.2**	**17.3**	**7.1**	**18.2**	**5.1**	**9.2**	**57.0**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

2.4.2 Background and basis for Draft Decision

79. DBP's OneERP S/4HANA implementation was a major IT project that DBP undertook commencing in AA4 over a period from 2020 to 2023. For AA4, ERA allowed the commencement work of $3.5m and provided an allowance of a further $11.5m for the project to be complete in the first year of AA5 (i.e. 2021). DBP has incurred $28.1m in AA5 and seeks to claim this as Conforming Capex.[7]

80. ERA notes that the OneERP project was undertaken by DBP's parent entity, AGIG, for its group businesses. ERA states that:

> *'AGIG's information shows that the initial vendor did not perform and after protracted delays, increased costs and an unsatisfactory level of gaps and defects, AGIG replaced [the initial vendor] and restructured the project.'*[8]

81. Noting that DBP is allocated only a share of the AGIG cost, we inferred from information in our Initial Report a total project cost of $53.7m, in $2024.[9] As ERA noted, the main sources of the increase were:

- *'A more than doubling of the original vendor implementation costs, with the actual cost being also 50 per cent higher than the updated estimate provided to the Board in 2022.*
- *External technical resource requirements eight times higher than originally estimated, and a similar amount higher than the update provided to the Board in 2022.*
- *Internal resource requirement around 2.5 times higher than originally estimated, and 50 per cent higher than the updated estimate provided to the Board in 2022.'*[10]

82. The ERA reasoning for its draft decision is summarised in the following:

> *'The ERA considers that DBP's proposed AA5 capital expenditure for the project is not prudent and efficient expenditure. Paying more than twice the original tendered value and proposed budget for the project, without receiving any advanced functionality and or efficiency benefits cannot be considered efficient and prudent expenditure.'*[11]

7 All figures are from DBP's Attachment 9.6A revised FP Capex Model, and are expressed in $2024

8 ERA Draft Decision, paragraph 63 (page 17)

9 Quoted by ERA in its Draft Decision, paragraph 68 (page 17)

10 ERA Draft Decision, paragraph 69 (page 18)

11 ERA Draft Decision, paragraph 76 (page 20)

83. ERA determined that 50% of the total project cost of $32.6m claimed by DBP was not Conforming Capex, and therefore reduced DBP's AA5 Conforming Capex claim by this amount (i.e. $15.8m).

2.4.3 DBP's response to the Draft Decision

84. DBP does not accept ERA's Draft Decision. Its primary points of contention are as follows:

- **Ex-post review should not be led by hindsight:** '*…it is not reasonable to conclude that the subsequent costs resulting from the decision to appoint [the original] vendor are, in hindsight, non-conforming*.'[12]
- **Original forecast was wrong:** '*…a significant portion of the overspend compared to the 2019 (AA5) estimate was due to an original under forecast and not an inefficient delivery'*. Also that '*…just because the original forecast was wrong, does not automatically mean the variance in costs is non-conforming*.'[13]
- **Cost was prudent and efficient in the circumstances**: DBP asserts that '*…all the implementation costs incurred were necessary in the circumstances*…' and that '*…the actions AGIG took to address an underperforming vendor during an extraordinary economic period and through a pandemic were those of a prudent service provider, acting efficiently*.'[14]
- **Cost benchmarks with peers:** '*…the end cost of implementing the S/4HANA solution is comparable with peers, is appropriate for an IT project of this scale and complexity and that the original forecast was substantially underestimated…*'[15]
- **Write-down across whole project spend is not justified:** '*We do not believe it is appropriate under the ex-post regulatory review to apply this 50% assumption to the entire project, thereby effectively writing down half the costs incurred during the AA4 period.*'[16]

2.4.4 Addressing DBP's response to ERA's Draft Decision

Our ex-post review is not based on the benefits of hindsight

85. We consider it a reasonable position that an ex-post review should not be based on hindsight, but this was not the basis on which we undertook our assessment of DBP's Initial Proposal, nor does it reflect the approach we are taking in the current assessment.

Variance between actual cost and an original forecast is not automatically non-conforming

86. We also consider it a reasonable position that variance between actual cost and an original forecast does not automatically mean that the variance is non-conforming. We refer to our advice to ERA, and ERA's subsequent Draft Decision on a number of DBP projects for which it proposed AA5 Conforming Capex in excess of original forecasts and resulting AA5 allowances. Examples include DBP's AA5 expenditure on Maximo process redesign, refresh of the TBS and Data Centre infrastructure, for each of which DBP incurred higher AA5 costs than relevant allowances but which ERA accepted as Conforming Capex.

87. Our position is that original forecasts are reasonable factors to consider, since at some stage these were held to represent the business' most reasonable cost estimate and were the estimate that the regulator assessed for that prior decision. We consider it a matter of governance concern that a business needs to subsequently acknowledge that such an estimate was wrong to a material extent, however DBP has now acknowledged that this was the case. Given this, we seek to understand the factors that resulted in the variance but, if

12 Attachment 9.12 – OneERP, p.18

13 As above, page 4

14 As above, page 2

15 As above, page 2

16 As above, page 5

these too are not explained, then we pursue other approaches in undertaking our assessment.

Test for prudency and efficiency is not qualified by reference to 'circumstances'

88. We consider that the reference in DBP's statement to prudency and efficiency '*…in the circumstances…*' seeks to qualify the meaning of the relevant NGR criteria, since there will always be 'circumstances' that have led to a particular cost being incurred.

89. We consider that such an interpretation is not compatible with the NGR criteria. While risk factors can impact a project outcome, we do not consider it reasonable for a project that was significantly impaired as a result of an underperforming vendor, which took twice as long as planned to deliver and with a major cost overrun, to be considered 'prudent and efficient'. We consider that it is consistent with the NGR for customers to be charged based on a reasonable assessment of the costs of a prudent and efficient provider, but which may not always reflect the costs that the actual provider incurs.

90. Applying this to the project in question, we consider that assessment of what is 'reasonable' allows for some variance in project delivery outcomes and the degree of normal risk and uncertainty inherent in a major IT project. In this regard, we note advice that DBP has provided that a proportion of IT projects are subject to cost and schedule overruns.[17] However, we we do not consider that the well-acknowledged existence of cost overruns in IT projects exempts DBP's project from scrutiny on the basis that its cost overruns were caused by the failure of its original vendor to deliver.

Cost benchmarking can provide indicative points of reference, but is not determinative

91. We consider that it is useful that DBP has provided some benchmark comparator information in its Revised Proposal, and we consider this in a subsequent section. We agree with DBP's statement that this does suggest that its original forecast was substantially underestimated. However, for reasons which we explain in our later section, we do not consider that the benchmarking information that DBP provides demonstrates in itself that its proposed expenditure meets the NGR criteria for Conforming Capex.

Write down was not applied to whole project

92. In considering alternative AA5 Conforming Capex for the project at the Initial Proposal stage, we necessarily considered the whole project cost because it is only given that the project has been delivered that it is possible to assess it as a whole. We refute the implication that we effectively re-opened consideration of the relatively small amount of expenditure on the project that had already been deemed Conforming Capex for AA4 and note that ERA specifically applied the disallowance of non-conforming capex, to DBP's proposal for AA5.

2.4.5 Assessment of DBP's cost build-up information

DBP's new information on cost build-up

93. DBP has provided a breakdown of the cost of the project, which we reproduce in Table 5.2.[18] In its table, DBP also provides explanatory information on each item, which we have reviewed and which we take into account in our assessment. We have assigned the items to broad 'categories' based on DBP's information.

94. DBP's cost breakdown and associated explanatory information provides further insights which assist with our assessment.

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17 KPMG report to DBP on ERP Implementation Cost Benchmarking, 19 August 2025, and reference in DBP response page 6

18 We understand that this cost is for the whole project (i.e. including work done in AA4) and note that it is in $nominal. We assume that this is broadly consistent with the overall cost of $31.6m in $2024 that DBP has proposed (in aggregate) across AA4 and AA5.

Table 2.5: Summary of SAP/4HANA implementation costs – DBP share; $m, nominal

Resource	Ref.	Item	Cost	Category
[redacted]	1	Milestone payments	3.5	*Implementation services*
	2	Change requests	2.0	*Implementation services*
	3	Service at end of contract	2.1	*Implementation services*
[redacted]	4	Contract payments	5.7	*Implementation services*
	5	Change requests	0.6	*Implementation services*
	6	Application upgrade	0.1	*Subscription/licencing*
	7	Gap assessment	0.4	*Implementation services*
[redacted]	8	Real-time assurance	0.5	*Implementation services*
	9	Technical support and PM	0.9	*Implementation services*
[redacted]	10	PM, technical support, training and engagement	1.7	*Implementation services*
Internal resources	11	Data / specialist augmentation	2.4	*Data migration*
	12	Third party contractors	2.2	*Training and change management*
	13	DBP internal resources	4.4	*Internal resources*
	14	AGN internal resources	0.9	*Internal resources*
Licencing	15	SAP, other licencing and incidentals	1.8	*Subscription/licencing*
Total			**29.2**	

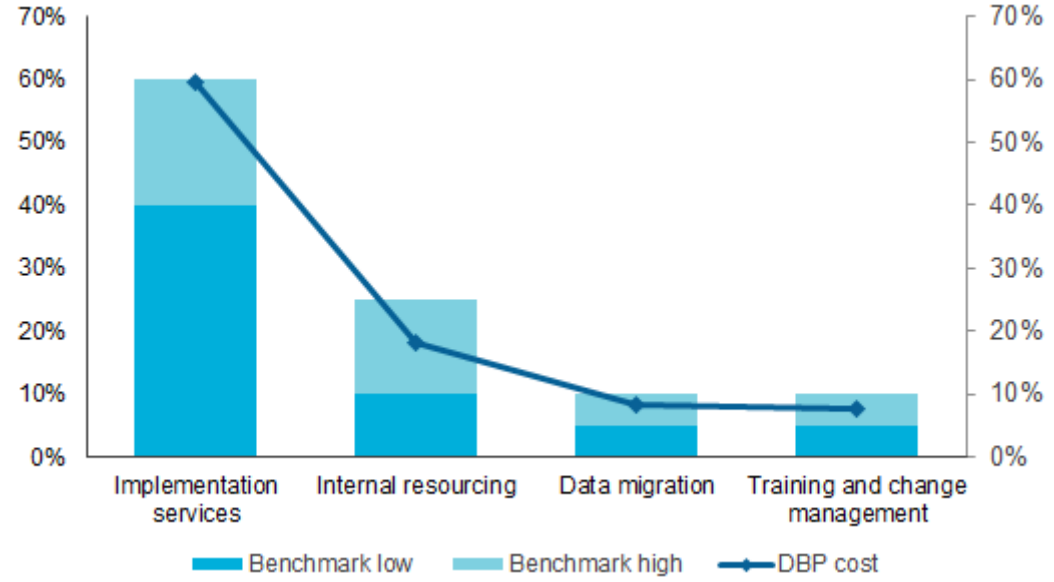
Source: EMCa based on DBP response, Table 1.3. EMCa has assigned the 'Category' information based on our review of DBP's explanatory information for each service. EMCa has also assigned the 'reference numbering' of items, for ease of referral in our assessment.

Consideration of proportionate costs

95. We first considered the extent to which the grouped items of expenditure fall within a reasonable proportionate range for IT projects of this nature. To assist this, we collated generic information on indicative proportionate breakdown for SAP S/4HANA implementation costs and we provide the comparative results of this analysis in Figure 2.2.

96. In broad terms, our analysis indicates that DBP's costs were broadly within the range of proportions for each 'category' of services undertaken, though with Implementation Services costs at the top of the range. This is consistent with this category including the implementation services of the original vendor and the replacement vendor, and with the extended amount of 'project management' and assurance, which also involved two providers.

Figure 2.2: Proportion of cost by service category



Source: EMCa analysis

97. A significant conclusion that we draw from analysis of this breakdown is that the proportion of non-vendor implementation services is within a reasonable proportionate range for a project of this nature.

98. While we need to stress that this analysis is based on proportions of DBP's total cost and does not in itself validate that total cost itself as 'prudent and efficient', it does indicate that DBP's costs incurred for internal resourcing, data migration and training and change management were not proportionate outliers. This is relevant because, as we show in Table 2.6, DBP's budget estimates, including for its original AA5 allowance, had significantly smaller allowances for 'external technical' and 'AGIG project resources' than were eventually incurred. We consider that this supports a view that the variance at least for these components, relates more (though not necessarily wholly) to budget underestimation than to cost inefficiencies.

99. However, such costs are also to an extent a function of project duration, which was protracted due to the delivery failure of the original vendor. We return to this aspect in considering the reasonableness of these cost components.

Table 2.6: DBP's OneERP Total Project cost allowances, estimates and actual cost[19]

Cost component	Basis for AA5 allowance (2020)[20]	Stated project budget	Board paper updated estimate	Completed total cost[22]
Vendor implementation	10.8	[redacted]	[redacted]	[redacted]
SAP licence	1.2	[redacted]	[redacted]	[redacted]
MS [redacted]	0.4	[redacted]	[redacted]	[redacted]
External technical	0.8	[redacted]	[redacted]	[redacted]
AGIG project resources	5.9	[redacted]	[redacted]	[redacted]
Contingency		[redacted]		
Total cost	**19.1**	[redacted]	[redacted]	[redacted]

Source: EMCa from information provided by DBP in response to IR EMCa11, Q12. Table was originally included as table 5.14 in our Initial Report, and the information was reproduced as Table 4.7 in ERA's Draft Decision

Consideration of cost items

100. We next considered the line-by-line explanations that DBP has provided for the cost items shown in Table 2.5. In this assessment, we take the view that an IT implementation in which a vendor fails to deliver, the project is paused, and the vendor is then replaced to complete the project, is not a prudent and efficient implementation. As DBP's adviser states:

> *'Once it became evident that [the original vendor] was not capable of contract performance [DBP had to] replace [the original vendor] with [the replacement vendor], which resulted in significant additional project and change request costs to complete the project.'*[24]

101. We seek to identify those costs that resulted directly or indirectly from the failure of DBP's original vendor and to quantify the 'significant additional costs' that it incurred. We comment on these by exception, as follows:

- Of the [redacted] change requests of $2.0m (item 2), DBP's information indicates that 42% of this was for program delays '*in part due to pandemic restrictions and* [redacted] *underperformance*'. This comprises $0.84m.
- DBP's payment of $2.1m to its original vendor (item 3) would not have been required if that vendor had delivered.
- Gap assessment of $0.4m (item 7) would not have been required if the vendor had delivered
- DBP's payments to [redacted] totalling $1.4m (items 8 and 9) were important in identifying [redacted] failure to deliver. However, when taken in conjunction with the $1.7m paid to

19 The denomination of these costings is not entirely clear. While the ERA approved costs were in $2019, DBP refers to them in places as being in $2020 (though inflation was minimal between these years). As DBP present the completed total cost in the same table, and uses it to derive a variance, we assume it is presented on the same basis. The basis of the Board Paper costings is not stated, but a default assumption is that these would be nominal dollars of around that time – ie 2022.

20 DBP response to EMCa11, Q12e.2. (Some row labels have been shortened and rationalised for comparison with other information)

21 [redacted]

22 DBP response to EMCa11, Q12e.2

23 It is unclear why the budget DBP presented to its Board differs from the amount previously presented to ERA; however we do not make use of this figure.

24 DBP advice letter from A&O Shearman, 13 August 2025, provided as Appendix B to DBP's response

[redacted] (item 10) to continue what was in effect a similar service, the aggregate of such costs clearly result in part directly from dealing with [redacted] underperformance and in part from the effective doubling of the project timeframe, and the consequent need to engage such services over this protracted timeframe. We consider that a reasonable approach is to combine these costs (i.e. therefore totalling $3.1m) but to discount them by one-third in determining a prudent and efficient amount. This reflects a view that, while a purely time-based approach could suggest halving the amount (to account for the doubling of project duration) there is an element of 'additional value' that DBP would have gained from employing the two providers, albeit at different stages of the project.

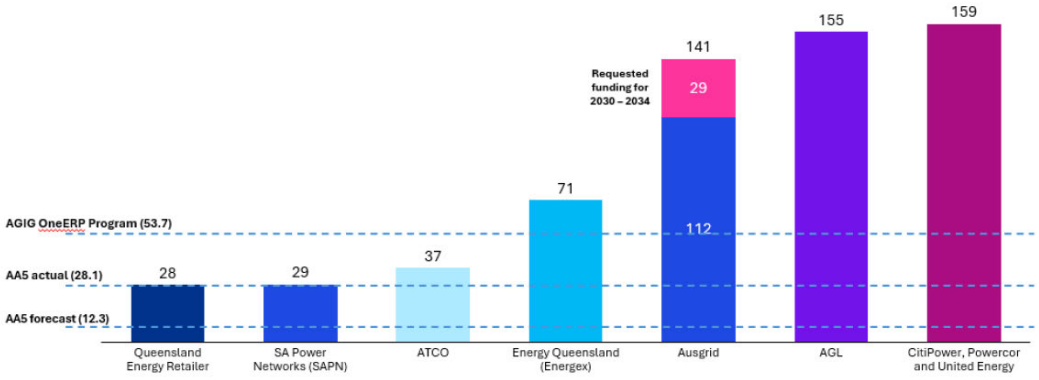
- The costs for Third party contractors, DBP internal resources and AGIG internal resources total $7.5m. While the majority of this work would have been required regardless of the performance of the principal vendor, a degree of inefficiency would inevitably have resulted from dealing with vendor non-performance and the protracted project timeframe. We conservatively estimate the impact of this at 20%, that is, $1.5m.

102. Our alternative forecast is derived from this assessment, as shown in table Table 2.7

2.4.6 Assessment of benchmarking information

103. In its response, DBP claims that *'…the end cost of DBP's SAP S/4HANA compares reasonably with other ERP projects at similar businesses*' and provides a report by KPMG with information in support of its claim. DBP states, from the KPMG research that it commissioned, that ERP (SAP) projects in the Australian energy and utilities sector range from $25m to $75m for medium-sized utilities and $100m to $200m to larger utilities.

Figure 2.3: Comparison of peer ERP implementation costs - $m 2024



Source: DBP response, figure 1.2, from KPMG research (presented as Appendix A of DBP's response).

104. We consider that the benchmarking information is consistent with DBP's claim that its original estimate of $12.9m was understated. However, we consider that it does not provide the support that DBP claims for the comparability of its eventual actual cost. We make the following observations:

- Given the 'allocation' of costs from AGIG to DBP, we consider that it is more appropriate to compare costs on an 'entity' basis – that is, to compare costs shown for other entities against the 'AGIG total project' cost of $53.7m, than against the DBP share of costs. On this basis, AGIG's cost is not 'at the low end' of genuine comparators, noting that Ausgrid, AGL and CitiPower/Powercor/United Energy are vastly larger entities.
- The DBP 'AA5' figure of $28.1m is also not a valid comparative amount, as this is only DBP's AA5 expenditure, and does not represent the total cost even to DBP and which included expenditure in AA4.
- The figure shown in the KPMG graph is misleading for 'Energy Queensland'. The graph qualifies this as being for Energex, however Energy Queensland is an entity that encompasses both Energex and Ergon and IT is provided by Energy Queensland for both DNSPs. In Table 17 of the Energy Queensland business case, the costs are

allocated as $31.7m to Energex and $42.2m for Ergon.[25] In other words, the costs for these entities fall between DBP's allocation of the AGIG cost and AGIG's total project cost.

- In comparing costs, Energex and Ergon directly serve around 2.3 million customers and have a total of over 9,000 staff. In both respects, this is considerably bigger than DBP. SAPN is also larger in both respects, and ATCO gas has many more directly connected customers than DBP and which would have some impact on the size and complexity of its SAP implementation.

105. DBP also refers to KPMG findings on technology project overruns, that approximately '*…one-third of SAP projects are delivered on budget*'. We find it unsurprising that the cost of two-thirds of SAP projects exceed budget, however this does not justify the efficiency of AGIG's overall project cost of $51.6m relative to its original budget of $19.1m.

106. KPMG's report also refers to the impact of inflation, with an estimate that if the OneERP project was delivered today, its $19.1m budget cost would be $23.6m. This is irrelevant for two reasons:

- DBP has stated (and we accept) that its original budget was understated, and
- The project was delivered in 2023, therefore it is not relevant to estimate what it would have cost if delivered in 2025 as KPMG has done.

107. In summary, we consider that while the benchmarking and cost comparator information that DBP has presented provides some form of context for the costs that it has incurred, it does not validate its actual costs as prudent and efficient.

2.4.7 Alternative forecast for OneERP SAP S/4HANA project

108. In Table 2.7 we derive an adjustment that can be applied to determine an alternative forecast for AA5 Conforming Capex. We derive this by considering the cost breakdown information that DBP has provided, together with its explanations for the nature of those costs, consistent with our assessment in section 2.4.5..

[25] For example, Ergon – 5.8.06, ICT Digital Core, 25 January 2024 (available at AER website)

Table 2.7: DBP cost breakdown and derivation of EMCa alternative cost adjustment ($m, nominal)

Resource	Item	DBP Cost	EMCa adjustment	EMCa alternative	EMca adjustment (%)
[redacted]	Milestone payments	3.5	0.0	3.5	*0%*
	Change requests	2.0	-0.8	1.2	*-42%*
	Service at end of contract	2.1	-2.1	0.0	*-100%*
[redacted]	Contract payments	5.7	0.0	5.7	*0%*
	Change requests	0.6	0.0	0.6	*0%*
	Application upgrade	0.1	0.0	0.1	*0%*
	Gap assessment	0.4	-0.4	0.0	*-100%*
[redacted]	Real-time assurance	0.5		0.5	*-33%*
	Technical support and PM	0.9		0.9	
[redacted]	PM, technical support, training and engagement	1.7	-1.0	0.7	
Internal resources	Data / specialist augmentation	2.4	0.0	2.4	*0%*
	Third party contractors	2.2	-0.4	1.8	*-20%*
	DBP internal resources	4.4	-0.9	3.5	*-20%*
	AGN internal resources	0.9	-0.2	0.7	*-20%*
Licencing	SAP, other licencing and incidentals	1.8	0.0	1.8	*0%*
Total		**29.2**	**-5.9**	**23.3**	***-20%***

Source: EMCa

109. The estimate above is derived from DBP's total (i.e. AA4 and AA5) project cost disaggregation in $nominal, and that it is therefore subsequently necessary to:

- Apply the adjustment as a percentage, to costs expressed in $2024, and
- To account in determining AA5 Conforming Capex for the amount already determined to be Conforming capex in AA4.

110. These steps are shown in Table 2.8, and result in an applied adjustment of 23% which results in AA5 Conforming Capex of $21.6m, compared with DBP's proposed amount of $28.1m.

Table 2.8: Derivation of alternative forecast adjustment for AA5 Conforming Capex for DBP's SAP S/4HANA project

Item	DBP claimed actual cost ($m)	EMCa adjustment (%)	EMCa adjustment ($m)	Resulting amount ($m)
Total project cost	31.6	-20%	-6.5	25.2
less AA4 Conforming Capex				*-3.6*
AA5 Conforming Capex				**21.6**
DBP proposed Conforming Capex for AA5				28.1
Implied AA5 adjustment		**23%**		**-6.5**

Source: EMCa

2.4.8 Findings and implications for computers and motor vehicles asset class conforming capex

DBP's proposed level of AA5 capex is not justified as conforming capex and an alternative forecast is less than what DBP has proposed

111. We consider that DBP's proposed inclusion of $57.0m conforming capex for computers and motor vehicles is not justified. We consider that a reasonable alternative value is $50.6m (11%) less than DBP has proposed, reflecting our revised assessment for the exclusion of inefficient expenditure on the SAP 4/HANA implementation.

112. We consider that DBP's expenditure on other Corporate Sustaining Apps, on Network Security, on other IT (which includes IT sustaining infrastructure) and on vehicles can reasonably be accepted as conforming capex, as was the case in our assessment of DBP's Initial Proposal.

Table 2.9: DBP proposed and EMCa revised alternative estimate for conforming AA5 capex for Computers and Motor Vehicles projects - $m, real Dec 2024

					DBP Revised AA5 Capex	
	DBP Initial	ERA DD	DBP RRP	Adjustment	Alternative	*Adjustment (%)*
Accepted by DBP:						
Various projects	28.9	28.9	28.9	0.0	28.9	*0%*
Not accepted by DBP:						
CP1700407: OneERP S/4HANA Implementation	28.1	12.3	28.1	-6.5	21.6	*-23%*
TOTAL	**57.0**	**41.2**	**57.0**	**-6.5**	**50.6**	***-11%***

Source: EMCa

2.5 Assessment for Buildings asset class

2.5.1 DBP's revised proposal

113. In its Revised Proposal, DBP proposes $5.9m actual/estimated capex in the AA5 period in the Computers and Motor Vehicles asset class, $1m less than it initially proposed but $1m more than ERA's Draft Decision.

114. As shown in Table 2.10, DBP has accepted ERA's Draft Decision in respect of projects with a combined value of $4.2m, and which was as DBP had initially proposed. DBP rejects ERA's Draft Decision in respect of its proposed Jandakot Site Redevelopment but now proposes an amount that is $1.1m less than it had initially proposed.[26]

[26] The difference of $0.1m between the values for Jandakot and for the total category are due to rounding

Table 2.10: DBP's Revised Proposal for AA5 capex for the Buildings asset class - $m, real December 2024

Project	DBP Initial Proposal	ERA Draft Decision	DBP Revised AA5 Capex					
			2021	2022	2023	2024	2025	TOTAL
Accepted:								
Various projects	4.2	4.2	0.6	1.2	-0.2	1.0	1.6	**4.2**
Not accepted:								
Jandakot Site Redevelopment	2.8	0.7	0.0	0.0	0.0	0.0	1.7	**1.7**
TOTAL	**6.9**	**4.9**	**0.6**	**1.2**	**-0.2**	**1.0**	**3.3**	**5.9**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

2.5.2 Assessment for DBP10-NEW02: Jandakot site redevelopment

Background and basis for Draft Decision

115. In its Final Decision for AA5, ERA included an allowance of $8.5m (in $2024) for DBP to redevelop its Jandakot site. At the time that it submitted its Initial Proposal for AA6, it had incurred no expenditure up to 2024 but forecast spending $2.8m in 2025 and proposed this as a Conforming Capex amount for AA5.

116. In its Initial Proposal, DBP provided little information to explain the basis for the AA5 capex that it proposed. DBP explained that it had not proceeded with the redevelopment in AA5 but proposed to do so in AA6 and so any expenditure did not appear to have contributed to resolving the issues that DBP had originally identified, and for which ERA accepted the original allowance. ERA formed the view that expenditure of $2.8m in AA5 was excessive and premature for what appeared to comprise site architectural concept designs and associated site development plans for a redevelopment of a scope and scale that that was not supported by a evidence of a coherent long-term strategic assessment of DBP's accommodation and facilities needs and options for this site.

117. Absent any more specific information from DBP, ERA determined an alternative estimate for AA5 of $0.7m, which was 25% of the amount that DBP had proposed.

DBP's Revised Proposal

118. In its Revised proposal, DBP advises that it has *'…incurred $0.69 million on scoping, design and the development application (DA) to date and expects to spend a further $1.03 million by year end as the DA progresses.'*[27] DBP states that it has now developed a more mature understanding of its accommodation requirements and [redacted] which it has provided as part of its Revised Proposal.

Assessment

119. We see evidence of DBP's more mature planning for the Jandakot redevelopment in its Revised Proposal and this assists in our consideration of DBP's proposal (in section 5.2). We also note that the amount proposed is considerably less than DBP had initially proposed, and we consider it to be reasonably proportionate relative to the overall cost of the redevelopment, noting that DBP has now also provided more substantial justification for this cost (as we describe in section 5.2.)

120. On this basis, we consider that DBP's revised amount is a reasonable estimate and can be considered Conforming Capex.

[27] Attachment 9.12 - Jandakot Facility Redevelopment

2.6 Findings summary and implications

2.6.1 Our findings

121. DBP did not accept ERA's Draft Decision for:

- Metering and corrosion protection (though the corrosion protection projects that DBP challenges all relate to meter stations)
- Building (being only expenditure on Jandakot redevelopment)
- Computers and motor vehicles) being only expenditure on it OneERP SAP S/4HANA development).

122. New information that DBP has provided leads us to recommend that ERA:

- Accepts that some metering asset expenditure that we previously considered to be non-conforming, is conforming though we consider that some still does not meet the relevant criteria
- Accepts DBP's significantly reduced proposal for Jandakot redevelopment expenditure in this period
- Accepts a higher amount than was allowed in ERA's Draft Decision for the SAP S/4HANA project, though we remain of the view that the project did not deliver an outcome for consumers at an efficient cost, and therefore that some of the expenditure that DBP has proposed is not Conforming capex.

2.6.2 Alternative assessment of Conforming Capex for AA5

Alternative forecast

123. To the extent that we consider that DBP's revised proposal is not reasonable, we have applied adjustments at the project level to derive an alternative assessment of Conforming Capex. In Table 2.11 we have aggregated these by asset category, showing the resulting alternative amounts.

124. The total resulting alternative AA5 Conforming Capex is $205.0m.

Table 2.11: EMCa alternative forecast for AA5 capex - $m, real 2024

Asset class	2026	2027	2028	2029	2030	TOTAL
Building	0.6	1.2	-0.2	1.0	3.3	5.9
Cathodic/Corrosion Protection	4.8	6.1	6.9	3.9	3.0	24.8
Compression	3.2	4.1	5.1	1.6	1.3	15.4
Computers and Motor Vehicles	14.8	6.5	14.9	5.2	9.2	50.6
Metering	4.7	2.9	3.5	3.1	2.5	16.7
Other Depreciable	2.9	2.7	0.5	1.8	1.8	9.7
Pipeline	0.0	2.5	1.1	0.0	0.0	3.6
SCADA , ECI And Comms	9.2	16.5	16.7	20.9	15.1	78.5
TOTAL	**40.1**	**42.5**	**48.6**	**37.6**	**36.3**	**205.0**

Source: EMCa

Comparisons and adjustments

125. As is shown in Table 2.12, for its revised proposal DBP proposed AA5 capex of 211.8m, which is $1.0m less than it initially proposed. From our assessment of its revised proposal,

we consider that this remains overstated by $6.8m, for the reasons summarised in section 2.6.1.

126. In Table 2.12, we show a comparison of the aggregate amounts in DBP's Initial Proposal, ERA's Draft Decision and DBP's Revised Proposal along with the alternative values that we consider to be justified as Conforming Capex for this period.

Table 2.12: Adjustments in AA5 period by asset class - $m, real Dec 2024

Asset class	DBP Initial	ERA DD	DBP Revised	EMCa Adj. ($m)	EMCa Alternative	EMCa Adj. (%)
Building	6.9	4.9	5.9	0.0	5.9	0.0%
Cathodic/Corrosion Protection	24.8	24.8	24.8	0.0	24.8	0.0%
Compression	15.4	15.4	15.4	0.0	15.4	0.0%
Computers and Motor Vehicles	57.0	41.2	57.0	-6.5	50.6	-11.3%
Metering	17.0	15.2	17.0	-0.3	16.7	-1.7%
Other Depreciable	9.7	9.7	9.7	0.0	9.7	0.0%
Pipeline	3.6	3.6	3.6	0.0	3.6	0.0%
SCADA, ECI And Comms	78.5	78.5	78.5	0.0	78.5	0.0%
TOTAL	**212.8**	**193.1**	**211.8**	**-6.8**	**205.0**	**-3.2%**

Source: EMCa

3 AA6 FORECAST CAPEX - OVERVIEW AND ASSESSMENT FOR TECHNICAL ASSETS

Summary overview

DBP's Revised Proposal for AA6 capex is $262m, which is $26m less than it initially proposed but $42.1m more than ERA's Draft Decision. The main areas of difference between DBP's Revised Proposal and ERA's Draft Decision are:

- **Buildings:** ERA considered that DBP had not justified the level of its proposed expenditure to redevelop its Jandakot site and determined a significantly lower amount derived from DBP's previous estimate. DBP has challenged this and has re-proposed the initial amount. While DBP has reduced its proposal for one other project (northern depot), in aggregate its Revised Proposal for buildings is $23.5m more than ERA's Draft Decision
- **Computers and motor vehicles**. In its Draft Decision, ERA allowed $15.0m less than DBP had proposed. In its Revised Proposal, DBP has reduced its proposal by $4.9m, but this is still $10.1m more than ERA's Draft Decision.
- **Compression.** In its Revised Proposal, DBP has reduced its forecast for compression assets by $5.6m, but this is still $3.8m more than ERA's Draft Decision
- **Metering and corrosion protection**. In its Draft Decision, ERA allowed $13m less for metering and $3.2m less for corrosion protection than DBP had proposed. DBP has reassessed its forecasts for both categories and has reduced them by $10.8m and $0.8m respectively, however in aggregate its revised forecast across these two categories is still $4.7m more than ERA's Draft Decision.

For remaining categories, DBP's revised forecast aligns with ERA's Draft Decision.

Summary assessment

Compression: In its Revised Proposal, DBP provides evidence that it has significantly reworked its forecast for compression to account for issues that ERA identified in its Draft Decision. With two minor exceptions, we consider that its reduced forecast is now reasonable.

Metering: For metering, DBP similarly provides evidence of having reworked its forecast and this has resulted in a considerably lower revised forecast. DBP maintains a view that applying a cost allocation for meter stations consistent with the Reference Services Contract is unworkable and has re-proposed inclusion of expenditure for stations other than Existing Stations. We consider it necessary within the scope of our mandate to recommend acceptance that aligns with the Contract; however DBP has provided new information on the nature of some work and which leads us to include some expenditure that, through lack of information, we had previously excluded.

Corrosion protection: DBP's re-proposed expenditure for corrosion protection assets is at meter stations, and our assessment is as described above for metering

For a summary of our assessment for computers and motor vehicles and for buildings, we refer to section 4 and section 5.

3.1 Introduction

3.1.1 Assessment framework

127. This section contains our assessment of DBP's AA6 capex forecast. We have undertaken the review using the assessment framework set out in Appendix A of our Initial Report, based on DBP's Revised Final Plan 2026-2030) and supporting information (such as Business Cases), together with information supplied pursuant to EMCa information requests.

3.1.2 Information sources for capex review

DBP's capex response summary

128. DBP provided a document entitled 'Summary of the Response to the Draft Decision'.[28] Covering both AA5 and AA6 capex, this document provides a listing of the business cases, which DBP annotated as to whether it accepted, modified or rejected ERA's Draft Determination. In this document, DBP also provides tables listing capex amounts by business case, and comparing DBP's Initial Proposal, ERA's Draft Decision and DBP's Revised Proposal for each.

129. As initially provided, this document referred to projects by name but in some cases the reference was unclear when we compared it with DBP's capex model. We therefore sought cross reference according to DBP's unique project numbering and DBP provided an update version of the document with this information.

Capex model

130. DBP provided a revised capex model (as attachment 9.6A) which listed its proposed projects and their proposed AA5 and AA6 expenditure and categorised them by asset class and by business case. This model is our primary data source that identifies the AA6 projects and proposed expenditure allowances.

131. We also expanded this model to include ERA's Draft Decision and to facilitate calculation and presentation of alternative forecasts.

Revised business cases and other information sources

132. DBP provides a number of capex-related attachments, containing its responses on specific aspects of ERA's Draft Decision. DBP refers to these as 'business cases' although they do not present as stand-alone business cases for investment purposes, but rather as documents that provide new information in response to aspects of ERA's Draft Decision. Each of the documents is designated as 'Attachment 9.12' although they exist as separate documents. For some documents there is a public and a confidential version and some documents comprise 'appendices' that are included within other documents.

133. These are the main documents that we have relied on in considering new information that DBP has provided for our revised assessment. We have reviewed and considered all such information that DBP has provided, though in this report we refer only to information that is significant to our updated assessment.

134. For clarifications, we also made a small number of information requests, each of which DBP responded to.

3.1.3 Inclusion of real cost escalation

135. DBP has applied a rate of real labour cost escalation in its forecast opex requirements, and which we accept there as reasonable. For the same reasons we accept DBP's application of this real cost increase to the labour component of its proposed capex. The capex that we

[28] DBP attachment 9.11

present as DBP's proposal therefore incorporate this real cost escalation and aligns to such amounts in DBP's Revised Proposal.[29]

3.1.4 Assessment, findings and alternative forecasts

136. In section 3.2 we provide an overview of DBP's revised AA6 capex proposal amounts, comparing these with its Initial Proposal and with ERA's Draft Decision and identifying the asset categories for which DBP has not accepted ERA's Draft Decision.

137. Our assessment of the extent to which DBP's revised capex forecast satisfies the capex criteria for the purposes of determining the level of conforming capex under the NGR are set out in sections 3.3 and 3.4 for compression, metering and corrosion protection assets, section 4 for IT and motor vehicle asset classes and section 5 for buildings. No assessment is required for the other three asset categories, as DBP's revised forecast is the same as ERA's Draft Decision.

138. To the extent that we consider DBP's proposed expenditure is not justified, we indicate the basis for alternative estimates in each of our findings and we combine this into an aggregate alternative AA6 capex forecast by asset class, in section 6

3.2 Overview of DBP's revised proposal for AA6 capex

While less than its Initial Proposal, DBP's revised AA6 capex proposal is $42.1m (19%) more than ERA's Draft Decision

139. DBP proposes a revised amount of $262m AA6 forecast capex. This is $26m less than DBP proposed in its Initial Proposal, but $42.1m more than ERA's Draft Decision.

140. As can be seen in Table 3.1 DBP has accepted ERA's Draft Decision for three asset categories. For the remaining five asset categories, DBP has accepted some aspects of ERA's Draft Decision and has therefore now proposed less than in its Initial Proposal.

Table 3.1: DBP Revised Proposal for conforming capex for AA6 ($m, real December 2024)

Asset class	DBP Initial Proposal	ERA Draft Decision	DBP Revised Proposal	*Variance*	*Accepted?*
Building	51.8	26.8	50.3	*23.5*	*Partially*
Cathodic/Corrosion Protection	23.6	20.4	22.8	*2.4*	*Partially*
Compression	33.3	24.0	27.7	*3.8*	*Partially*
Computers and Motor Vehicles	59.0	44.0	54.1	*10.1*	*Partially*
Metering	31.8	18.8	21.0	*2.3*	*Partially*
Other Depreciable	6.4	6.4	6.4	*0.0*	*Yes*
Pipeline	1.0	1.0	1.0	*0.0*	*Yes*
SCADA, ECI And Comms	81.2	78.5	78.5	*0.0*	*Yes*
TOTAL	**288.0**	**219.8**	**262.0**	***42.1***	

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model and ERA Draft Decision information

[29] For example, in DBP's Revised Final Plan and in DBP Attachment 9.11, tables 1.2, 1.3 and 1.4

3.3 Assessment for compression asset class

3.3.1 DBP's revised proposal

141. In its Revised Proposal, DBP proposes $27.7m forecast for AA6 capex in the Compression asset class. This is $5.5m less than it initially proposed, but $3.8m more than ERA's Draft Decision.

142. In Table 3.2 we show an aggregate amount of $10.5m that DBP has proposed for 'various projects.' These are projects for which DBP has accepted some but not all of the aggregate reduction amount that ERA applied in its Draft Decision. For the remaining projects, DBP has in most cases, proposed less than in its Initial Proposal but still more than ERA's Draft Decision. In some cases, DBP has re-proposed the initial amounts.

143. For the projects that DBP has not accepted, DBP has provided additional information to support its Revised Proposal in four business cases, and we review this information in four subsections that follow. In a further subsection, we assess DBP's explanation as to why it has not fully accepted the reductions applied to the other 'various' projects.

Table 3.2: DBP's Revised Proposal for AA6 capex for the Compression asset class - $m, real Dec 2024

Project	DBP Initial Proposal	ERA Draft Decision	DBP Revised AA6 Capex 2026	2027	2028	2029	2030	TOTAL
Accepted project determinations, but challenge unit cost adjustment:								
Various projects	13.6	9.4	2.3	1.6	3.1	1.5	2.0	**10.5**
Not accepted:								
Compressor Stations (DBP01)								
CP1700282: Compressor Air Package Replacement	2.8	2.0	0.8	0.4	0.4	0.4	0.4	**2.4**
DBP01-New-03: Replacement / upgrading of existing GCs which only requires replacement and software update	1.0	0.7	0.2	0.2	0.2	0.2	0.0	**0.8**
DBP01-New-07: Compressor Station valve replacement	1.8	1.3	0.3	0.3	0.3	0.3	0.3	**1.5**
Pipeline and MLV (DBP02)								
CP1700564: Pig barrel isolation valve replacement	2.3	2.0	0.9	0.9	0.5	0.0	0.0	**2.3**
Structures & Operational Sites (DBP38)								
CP1700014: Working at height upgrades at Compressor Stations	2.3	1.2	0.5	0.5	0.5	0.5	0.5	**2.3**
CP1700490: Refurbishment of underground oil sump tanks.	0.6	0.3	0.1	0.1	0.1	0.1	0.1	**0.4**
DBP01-New-01: Replacement of RO units	1.5	0.8	0.2	0.2	0.2	0.2	0.2	**0.9**
DBP01-New-02: Physical security improvements at selected DBNGP sites	0.5	0.3	0.1	0.1	0.0	0.0	0.0	**0.3**
DBP01-New-05: Install swipe card access at CS9	0.3	0.2	0.2	0.0	0.0	0.0	0.0	**0.2**
DBP01-New-08: Helicopter Landing Pads	0.6	0.3	0.1	0.1	0.0	0.1	0.0	**0.4**
DBP01-New-09: Office equipment upgrade	0.2	0.1	0.0	0.0	0.0	0.0	0.0	**0.1**
Turbine exhaust replacement (DBP18)								
CP1700483: Turbine exhaust replacement	5.8	5.2	1.0	1.4	1.4	1.3	0.6	**5.8**
TOTAL	**33.3**	**24.0**	**6.7**	**5.8**	**6.6**	**4.6**	**4.1**	**27.7**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

3.3.2 Basis for Draft Decision

Compressor stations (DBP01)

144. In its Initial Proposal DBP proposed 10 compressor station projects. In our Initial Report to ERA, our assessment was that DBP will find opportunities to defer or otherwise not proceed with some of these projects and that there was a general overstatement of costs. In respect of seven of these projects, DBP has accepted this finding.

145. For the remaining three projects our findings were as follows:

- *DBP's proposed allowance of $2.8m for compressor air package replacement (as compared with $0.8m in AA5) is an ambitious uplift on the $0.8m incurred in AA5 for which life extension options do not appear to have been fully explored at this stage;*
- *DBP has proposed $1.8m for compressor station valve replacements. DBP underspent the ERA allowance in AA5 and we consider it likely that condition monitoring information will reveal opportunities for life extension in some cases;*
- *DBP's proposed allowance of $1.5m for rotor bundle replacement at this stage appears to be a speculative allowance; we consider that further monitoring and inspection information will reveal life extension opportunities.*

Structural and operational sites (DBP38)

146. In its Initial Proposal DBP proposed nine projects within this business case. Our finding was that the three projects listed below were at a speculative stage for which there is insufficient justification of need or for expenditure at the proposed level. These are:

- $1.5m for site building conversion
- $0.6m for helicopter landing pads
- $0.4m for oil farms.

147. DBP also proposed a project to address 'working at heights' issues, with a proposed allowance of $2.3m, which information suggested was a generalised allowance that would be reduced once considered at a site-specific level.

148. We also considered that DBP's unit costs were overstated.

Pipeline and MLV (DBP02)

149. In our Initial Report, we found that the proposed project was necessary, but that the unit cost was overstated.

Turbine exhaust replacement (DBP18)

150. In our Initial Report, our assessment was that this project was needed but that DBP's unit costs were overstated, noting that DBP did not provide supporting evidence for its costing.

3.3.3 Assessment of additional information

'Various projects' and general unit cost reductions for these projects

151. The projects captured generically under our heading 'various projects' in Table 3.2 comprise eight projects from the DBP01 Compressor stations business case and two projects from the DBP28 Structures and Operational Sites business case. Noting that DBP has accepted ERA's reduction of 20% to allow for deferral of some projects, essentially through extending them by one year beyond the next period, we consider that DBP's revised submission now provides a reasonable forecast for these projects. Included in these projects is also a reduction of a rotor bundle replacement project, consistent with ERA's Draft Decision.

Generalised unit cost reductions

152. For the majority of compression projects, DBP has accepted ERA's Draft Decision for adjustments reducing its proposed forecasts by 20% or 40%, and which was based on consideration of the prudent volume of work. In its Draft Decision, ERA also applied unit cost-based adjustments of a further 10% reduction, but which DBP has not accepted.

153. Given the generalised and significant adjustments that DBP has accepted and noting that there are a number of instances for which DBP's forecasts do align adequately with its historical unit costs, we are no longer of the view that a generalised unit cost adjustment is indicated for this category. We have instead considered unit costs on a project-specific basis: there are some for which DBP has now provided sufficient information for us to accept, but also some for which we consider DBP's costs still lack sufficient support. We refer to these on a case-by-case basis in our assessments below.

Compressor stations business case (DBP01)

154. In its revised business case, DBP provides reduced volumes for three projects:

- Gas chromatograph replacement (CP1700282)
- Compressor air replacement (DBP01-New03)
- Compressor station valve replacement (DBP01-New07).[30]

155. We consider that DBP's revised plan reflects the result of a reasonable and prudent challenge process that has led it to reduce these forecasts.

156. For the first of these projects, DBP's historical unit cost information also provides evidence to support its forecast. For the second two, however, DBP does not provide evidence to support its costings and, absent this, we consider that the concerns regarding rounded-up cost estimation that we raised in our Initial Report continue to apply for these two projects.

Structures and operational sites business case (DBP38)

157. DBP has accepted ERA's Draft Decision for projects within this business case, except for the Working at Heights project (CP1700014) and with respect to application of 10% overall unit cost adjustments.

158. DBP has now provided evidence that this project results from a site-specific audit and a resulting site-specific plan. Noting that this is a continuation of an existing AA5 program, albeit with an uplift, we consider that this now provides sufficient evidence of a reasonable forecast.

159. For the other projects, DBP has accepted the 40% reductions in ERA's Draft Decision, which allays our primary concern regarding the extent to which these represented speculative allowances for relatively undefined potential projects.

160. DBP's working at heights project is the largest of the projects under this business case and the proposed expenditure for this project is similar to that for all other projects combined (within this category). Its forecast unit costs for this project are less than those that it reports for AA5. Taking account of this, and of the 40% reduction that DBP has accepted, we consider that on balance DBP's forecast for this category is now reasonable and that application of a further generalised unit cost reduction would not be warranted.

Turbine Exhaust Replacement (DBP18)

161. In its revised business case information, DBP has now provided an itemised build-up of its costing for the four replacements that it proposed. This allays the concern that led us to recommend a 10% cost reduction in our Initial Report and provides evidence of a reasonable approach to estimating the costs for these four replacements.

[30] Attachment 9.12 – Compressor Station – Public, p.3 & 4.

3.3.4 Findings summary and implications

DBP's revised proposal is reasonable, except with respect to two projects with inadequately substantiated costs

162. DBP has accepted the main elements of ERA's Draft Decision for the majority of proposed compression projects and has reduced its forecast accordingly. For two significant projects (working at heights and turbine exhaust replacements) DBP has re-proposed the same amounts as in its Initial Proposal and, in both cases, has now provided information that supports this proposal.

163. We consider that DBP's unit cost evidence continues to lack support for two projects DBP01-New03 and DBP01-New07) and that, for reasons that we described more generally in our Initial Report, a reasonable forecast for these two projects would be 10% less than DBP has proposed. On balance, we consider that DBP's forecasts for other projects are reasonable.

164. In Table 3.3 we summarise DBP's proposed capex and the implication of the proposed EMCa adjustment for the AA6 capex allowance for compression. The adjustments result from the application of the individual project adjustments referred to above.

Table 3.3: DBP proposed and adjusted allowance for compression - $m, real Dec 2024

	DBP Initial	ERA DD	DBP RRP	EMCa Adjstmt	EMCa Adjstd	EMCa Adjstmt (%)
DBP Accepted project determinations, but challenge unit cost adjustment:						
Various projects	13.6	9.4	10.5	0.0	10.5	*0%*
Not accepted by DBP:						
Compressor Stations (DBP01):						
CP1700282: Compressor Air Package Replacement	2.8	2.0	2.4	0.0	2.4	*0%*
DBP01-New-03: Replacement / upgrading of existing GCs which only requires replacement and software update	1.0	0.7	0.8	-0.1	0.7	*-10%*
DBP01-New-07: Compressor Station valve replacement	1.8	1.3	1.5	-0.2	1.4	*-10%*
Pipeline and MLV (DBP02):						
CP1700564: Pig barrel isolation valve replacement	2.3	2.0	2.3	0.0	2.3	*0%*
Structures & Operational Sites (DBP38):						
CP1700014: Working at height upgrades at Compressor Stations	2.3	1.2	2.3	0.0	2.3	*0%*
CP1700490: Refurbishment of underground oil sump tanks.	0.6	0.3	0.4	0.0	0.4	*0%*
DBP01-New-01: Replacement of RO units	1.5	0.8	0.9	0.0	0.9	*0%*
DBP01-New-02: Physical security improvements at selected DBNGP sites	0.5	0.3	0.3	0.0	0.3	*0%*
DBP01-New-05: Install swipe card access at CS9	0.3	0.2	0.2	0.0	0.2	*0%*
DBP01-New-08: Helicopter Landing Pads	0.6	0.3	0.4	0.0	0.4	*0%*
DBP01-New-09: Office equipment upgrade	0.2	0.1	0.1	0.0	0.1	*0%*
Turbine exhaust replacement (DBP18)						
CP1700483: Turbine exhaust replacement	5.8	5.2	5.8	0.0	5.8	*0%*
TOTAL	**33.3**	**24.0**	**27.7**	**-0.2**	**27.5**	***-1%***

Source: EMCa

3.4 Assessment for metering and corrosion protection asset classes

3.4.1 DBP's revised proposal

DBP has accepted significant aspects of ERA's Draft Decision for these two asset classes. It has challenged and reproposed seven projects, all of which are from its Meter Stations business case (DBP15)

DBP's revised proposal – Metering asset class

165. In its Revised Proposal, DBP proposes $21.0m forecast for AA6 capex in the Metering asset class. This is $10.8m less than it initially proposed, but $2.3m more than ERA's Draft Decision.

166. As we show in Table 3.4, DBP has accepted ERA's Draft Decision for projects with an aggregate value of $18.3m, which was $10.7m less than DBP initially proposed. ERA disallowed expenditure for two of the other three projects and allowed a portion of the proposed expenditure for the third. For each of these three projects, DBP has re-proposed the same amounts as in its Initial Proposal. These three projects are all proposed as part of DBP's Meter Stations business case (DBP15).

Table 3.4: DBP's Revised Proposal for AA6 capex for the Metering asset class - $m. real Dec. 2024

	DBP Initial	ERA DD	DBP Revised AA6 Capex					
			2026	2027	2028	2029	2030	TOTAL
Accepted:								
Various projects	29.0	18.3	3.5	3.2	4.4	3.6	3.5	18.3
Not accepted:								
DBP15-NEW-02: Annual USM meter replacement	0.8	0.0	0.2	0.2	0.2	0.2	0.2	0.8
DBP15-NEW-03: Spare Meters for calibration	0.7	0.0	0.1	0.1	0.1	0.1	0.1	0.7
DBP15-NEW-04: Meter recertification	1.3	0.5	0.3	0.3	0.3	0.3	0.3	1.3
TOTAL	**31.8**	**18.8**	**4.0**	**3.8**	**4.9**	**4.2**	**4.1**	**21.0**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

DBP's revised proposal – Corrosion protection asset class

167. In its Revised Proposal, DBP proposes $22.8m forecast for AA6 capex in the Corrosion Protection asset class. This is $0.7m less than it initially proposed, but $2.4m more than ERA's Draft Decision.

168. As we show in Table 3.5, DBP has accepted ERA's Draft Decision for projects with an aggregate value of $18.9m, which was $0.7m less than DBP initially proposed. The projects for which DBP has accepted ERA's Draft Decision comprise all corrosion protection assets in the Compressor Stations business case (DBP01), the Pipeline and MLV business case (DBP02) and the Structures and Operational sites business case (DBP28), plus those projects in the Meter Stations business case (DBP15) for which ERA accepted DBP's proposal.

169. For the four other projects, DBP has re-proposed the same amounts as in its Initial Proposal. These four projects are all proposed as part of DBP's Meter Stations business

case (DBP15) and represent those Meter Station projects for which ERA did not accept DBP's proposal.

Table 3.5: DBP's Revised Proposal for AA6 capex for the Corrosion Protection asset class - $m. real Dec. 2024

Project	DBP Initial	ERA DD	DBP Revised AA6 Capex					
			2026	2027	2028	2029	2030	TOTAL
Accepted:								
Various projects	19.6	18.9	4.5	3.9	3.6	3.5	3.4	18.9
Not accepted (DBP15):								
CP1700249a: Refurbishment of below ground pipework	1.7	0.7	0.3	0.3	0.3	0.3	0.3	1.7
CP1700391b: Painting of Aboveground Facility	1.2	0.5	0.2	0.2	0.2	0.2	0.2	1.2
CP1700455: Earthing Replacement and AC mitigation of facilities	0.5	0.2	0.1	0.1	0.1	0.1	0.1	0.5
CP1700517: Meter Station piping repairs	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.6
TOTAL	**23.6**	**20.4**	**5.3**	**4.7**	**4.4**	**4.3**	**4.2**	**22.8**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

DBP challenged projects in Meter Stations business case

170. The three metering asset projects and four corrosion protection asset projects for which DBP has not accepted ERA's Draft Decision, are each contained within DBP's Meter Stations business case (DBP15). We therefore consider DBP's new information for these seven projects together.

3.4.2 Metering assets

Basis for Draft Decision

Of the three projects that DBP has re-proposed, ERA disallowed or reduced two on the basis that they were not (or not wholly) for Existing Stations, and the other project on the basis of insufficient justification

171. In the Draft Decision, DBP disallowed two significant projects:

- Project CP1700261: Gas chromatograph installations at producer inlets and at CS1 & CS2 ($6.0m), and
- Project New 04: Analyser installation at intake sites ($4.7m)

172. DBP has accepted these two exclusions, and this accounts for the reduction of $10.7m shown for 'various projects' in Table 3.4.

173. Of the three projects that DBP has reproposed, we summarise the basis for ERA's Draft Decision as follows:

- Project DBP15-New02 (Annual USM meter replacement). This was disallowed on the basis that none of the proposed sites are Existing Stations
- Project DBP15-New03 (Spare meters for recalibration). Because there is a requirement for meter redundancy in situ, we considered that there is insufficient justification provided by DBP to allow inclusion of pre-emptive recalibration of DBP's stock of spare meters. Further, we considered that it is the shipper's responsibility to provide the metering equipment

- Project DBP15-New05 (Meter recertification). DBP advised that it had not selected specific sites. On the basis that 39% of meter stations are Existing Stations, we recommended a pro rata reduction to apportion costs only to such stations.

Consideration of DBP's response – Annual USM meter replacement (DBP15-New02) and Meter recertification (DBP15-New05)

DBP claims that it is not obliged to recover metering costs from Shippers and that if it chooses not to, then this expenditure should be considered Conforming Capex. DBP also asserts that to not allow such expenditure as Conforming Capex is inconsistent with precedent, and with the NGR

174. For the two projects for which expenditure was disallowed on the basis that they are not (or not wholly) for use at Existing Stations (i.e. DBP15-new02 and DBP15-New05), DBP argues that it is not obliged to recover costs directly from relevant Shippers, though it acknowledges that it is entitled to. DBP also argues that:

- Charging shippers directly would represent a change in an accepted precedent
- The entitlement to charge shippers directly does not render the costs non-conforming, and
- Charging these costs directly to shippers would be inconsistent with the National Gas Objective and the National Gas Rules.

We have based our assessment on the Reference Service Terms and Conditions, which state that such costs are a Shipper's expense, other than for Existing Stations

175. As we stated in our Initial Report, we assessed the relevant costs consistent with clauses in the DBNGP Reference Service Terms and Conditions which stipulate that, other than for Existing Stations, the shippers using a particular station are responsible for the costs of operating and maintaining that station.

176. In Figure 3.1 we reproduce the relevant clauses; regardless of the responsibilities for provision of metering that are defined in clauses 15.1 and 15.2, they both state that it is at the Shipper's expense. As we stated in our Initial Report, we have based our assessment on the wording of these clauses, together with wording in clause 6.12 that excludes charging Shippers where it involves Existing Stations.

Figure 3.1: Primary clauses designating responsibility for metering

Metering

15.1: Shipper's responsibility

The Shipper must:

a. either itself or by procuring another party to do so, at the Shipper's expense, supply, install, Operate and Maintain Inlet Metering Equipment at each Inlet Station in good working order and condition and in accordance with the standard of a Reasonable and Prudent Person

15.2: Operator's responsibility

The Operator must:

a. either itself or by procuring another party to do so, at the Shipper's expense supply, install, Operate and Maintain Outlet Metering Equipment at each Outlet Station in good working order and condition and in accordance with the standard of a Reasonable and Prudent Person

Source: extract from DBNGP Full Haul T1 Contract Terms and Conditions

177. DBP argues that, while it is entitled to charge shippers directly, it is not obliged to. While DBP may choose not to charge shippers, this does not shift the responsibility to pay these costs to other parties. We consider it a reasonable interpretation that, where a given party is designated as responsible for certain expenses, it is not consistent to assume that these expenses should be charged instead to other parties.

178. Based solely on interpretation of the provisions of the Reference Services contract, we consider that metering is at the expense of relevant Shippers, unless it relates to Existing Stations. DBP has not provided information that would indicate any of the sites referred to for the USM project are Existing Stations, or that anything other than an apportionment to Existing Stations is appropriate for the Meter Recertification project. Absent consideration of factors that are beyond our scope, the ERA's Draft Decision therefore remains consistent with this position.

179. We form this view as Technical Consultants seeking to provide advice to ERA based on documents as we read them. We provide this advice in order to make clear our interpretation of relevant provisions, which form the basis for our assessment, but not as providers of regulatory legal advice.

We have not considered DBP's assertions regarding regulatory precedent or the compatibility of Reference Service Terms and Conditions with the NGR, nor their operational practicality, and which we consider beyond our scope

180. We consider that arguments that DBP provides by reference to the NGO and NGR, which are extensive, are in effect challenging the provisions of the Reference Service Terms and Conditions. For the purpose of our assessment, we have abided by the stated provisions as we read them, and we have not considered it to be within our mandate to contemplate whether they may be inconsistent with the NGR or NGO. We similarly have not considered in our assessment the extent to which other precedents may have been applied over the years.

181. For similar reasons, we have not considered DBP's assertions on matters relating to the operational practicality of abiding by the charging responsibilities set out in the Reference Service Terms and Conditions.

We do not consider that the basis for our assessment for stations that are not Existing Stations, is inconsistent with the NGR

182. DBP also claims that not allowing expenditure that the Reference Services contract states must be at the Shipper's expense, to be recovered as conforming capex, is contrary to NGR79. While we are not positioned as providing regulatory legal advice, we do not consider this to be the case, noting that this clause (together with references to clause 93) describes what is considered to be conforming capex in a manner that excludes costs that are to be charged to other parties (such as for other services).

Consideration of DBP's response – Spare meters for recalibration (DBP15-New03)

183. The additional information and justification provided by DBP raises several issues, including:

- DBP does not address the issue of how many of these spare meters are for use at sites with a capacity of less than 5TJ/day. It is unlikely that a site with a capacity of less than 5TJ/day would have a meter sized at greater than 4 inch. However, without detailed engineering information for each site at which the meters are proposed to be used, it is not possible to make a definitive finding as to the reasonableness of the proposal.
- As DBP has not provided any information as to the sites at which these meters are to be used during the AA6 period, an assumption must be made as to the proportion of the proposed works to be carried out at Existing Stations.

184. The information provided by DBP also raises a question about the classification of these assets and whether they should be considered as "Metering Assets" or rather as Inventory. Irrespective of the classification of the assets, a reasonable basis for the forecast would be pro-rata to the proportion of Existing Stations.

185.

3.4.3 Corrosion protection assets

Basis for Draft Decision

186. The basis for ERA's Draft Decision to allow reduced amounts for the three corrosion protection projects in the Meter Stations business case was to account for a proportion of the work being at stations that are not Existing Stations. DBP did not provide a list of sites at which work is proposed, and the default assumption was therefore that the work would be carried out at Existing Stations and other stations proportionately.

Response to DBP Revised Proposal

187. For the reasons described in 3.4.2, we consider that a reasonable forecast for the purposes of the regulatory determination would consider only those costs that relate to Existing Stations.

188. DBP has not provided further information on the sites at which the proposed work is to be undertaken; therefore, we consider the Draft Decision adjustment to pro-rate the proposed costs continues to provide a reasonable proxy for the amount to be allocated to Existing Stations.

3.4.4 Findings summary and implications

DBP's proposed allowance is more than it will require

189. In aggregate we consider that DBP's proposed AA6 capex allowance for the Metering and Corrosion Protection asset classes is more than it will require. There are seven projects across these two classes, for which DBP has not accepted ERA's Draft Decision. However, except for one project, we consider that the new information that DBP provides in its Revised Proposal does not provide information that would lead us to alter our findings, or ERA's Draft Decision.

190. In Table 3.6 and For the metering projects in the Metering asset class, we consider that ERA's Draft Decision values remain reasonable forecasts, except for one project (DBP15-NEW-03: Spare Meters for calibration), where we consider that some allowance is reasonable based on pro-rata allocation to Existing Stations.

191. Table 3.7 we summarise DBP's proposed capex and the implication of the proposed EMCa adjustment for the AA6 capex allowance for corrosion protection and metering assets. As can be seen in these tables, DBP has accepted ERA's Draft Decision for all except certain projects in the Metering business case (DBP15).

192. For the metering projects in the Corrosion Protection asset class, we consider that ERA's Draft Decision values remain reasonable forecasts.

Table 3.6: DBP proposed and adjusted allowance for Corrosion Protection assets - $m, real Dec 2024

Project	DBP Initial	ERA DD	DBP RRP	EMCa Adj. ($)	EMCa Adjusted	EMCa Adj. (%)
Accepted:						
Various projects	19.6	18.9	18.9	0.0	18.9	*0%*
Not accepted (DBP15):						
CP1700249a: Refurbishment of below ground pipework	1.7	0.7	1.7	-1.1	0.7	*-61%*
CP1700391b: Painting of Aboveground Facility	1.2	0.5	1.2	-0.7	0.5	*-61%*
CP1700455: Earthing Replacement and AC mitigation of facilities	0.5	0.2	0.5	-0.3	0.2	*-61%*
CP1700517: Meter Station piping repairs	0.6	0.2	0.6	-0.4	0.2	*-61%*
TOTAL	**23.6**	**20.4**	**22.8**	**-2.4**	**20.4**	***-11%***

Source: EMCa

193. For the metering projects in the Metering asset class, we consider that ERA's Draft Decision values remain reasonable forecasts, except for one project (DBP15-NEW-03: Spare Meters for calibration), where we consider that some allowance is reasonable based on pro-rata allocation to Existing Stations.

Table 3.7: DBP proposed and adjusted allowance for Metering assets - $m, real Dec 2024

	DBP Initial	ERA DD	DBP RRP	EMCa Adj. ($)	EMCa Adjusted	EMCa Adj. (%)
Accepted:						
Various projects	29.0	18.3	18.3	0.0	18.3	0%
Not accepted (DBP15):						
DBP15-NEW-02: Annual USM meter replacement	0.8	0.0	0.8	-0.8	0.0	-100%
DBP15-NEW-03: Spare Meters for calibration	0.7	0.0	0.7	-0.4	0.3	-61%
DBP15-NEW-04: Meter recertification	1.3	0.5	1.3	-0.8	0.5	-61%
TOTAL	**31.8**	**18.8**	**21.0**	**-2.0**	**19.0**	**-9%**

Source: EMCa

4 AA6 CAPEX – ASSESSMENT FOR IT AND MOTOR VEHICLES ASSET CLASS

In its Draft Decision, ERA determined that DBP's proposed expenditure for

- IT application upgrades and infrastructure refresh was overstated because it had not accounted for application of its own policy to defer such upgrades and refresh on a risk-basis
- IT application enhancements were overstated because DBP had not justified these by reference to benefits
- Motor vehicle fleet replacements were overstated as DBP had not justified the need for it proposed level of replacements.

For its revised IT proposal, DBP has now undertaken a project- by-project risk/prioritisation assessment of need and has reduced its forecast accordingly. We consider that this reduced forecast is reasonable.

DBP has also reviewed and now reduced its forecast for application enhancements and has provided explanations that we consider now justify these reduced amounts.

For fleet vehicle replacements, DBP has reproposed its initial forecast. We consider that the addition information that DBP has provided does not justify its proposed expenditure and we maintain the position expressed in our Initial Report, that its forecast is overstated.

4.1 DBP's revised proposal

DBP's revised proposal is less than it initially proposed, but higher than ERA's Draft Decision.

194. In its Revised Proposal, DBP proposes $54.1m forecast for AA6 capex in the IT and motor vehicles asset class. This is $4.9m less than it initially proposed, but $10.2m more than ERA's Draft Decision.

195. As we show in Table 4.1, DBP has accepted ERA's Draft Decision for projects with an aggregate value of $19.6m, which was $1.2m less than DBP initially proposed.

196. Fo IT Sustaining Applications (DBP21), ERA disallowed three proposed projects and for a range of proposed 'upgrades of other applications' determined a lesser amount than DBP had proposed. For the three projects that ERA disallowed, DBP has reproposed one project (DBP-New26) at the same amount as in its Initial Proposal; it has reproposed the other two projects, but at a lower amount than initially.

197. For Corporate IT sustaining infrastructure (DBP30), DBP has re-proposed two projects (DBP30-New01 and DBP30-New06) though for less than in its Initial Proposal. For a range of Network and currency projects, and for a meeting room refresh, DBP has reproposed the same amounts as in its Initial Proposal.

198. For Fleet Vehicles (under DBP17), DBP has not accepted the reduced amount that ERA determined and has reproposed its initial amount.

Table 4.1: DBP's Revised Proposal for AA6 capex for the IT and Motor Vehicles asset class - $m. real December 2024

Project	DBP Initial Proposal	ERA Draft Decision	DBP Revised AA6 Capex 2026	2027	2028	2029	2030	TOTAL
Accepted:								
Various projects	20.8	19.6	8.1	4.6	2.9	2.1	2.0	**19.6**
Not accepted:								
Corporate IT Sustaining Apps (DBP21)								
TBS upgrades (DBP21-04)	1.8	0.5	0.1	0.2	0.2	0.1	0.1	**0.8**
Upgrades of other applications (CP1700235, DBP21-New24, DBP21-New23, CP1700472, DBP21-New09, DBP21-New19, DBP21-New20, DBP21-New21, DBP21-New22, DBP21-New25)	12.2	9.7	3.0	1.3	0.7	5.6	0.6	**11.3**
DBP21-New-08: IT Sustaining Applications - refreshes of core business applications - System enhancements	2.8	0.0	0.5	0.5	0.5	0.4	0.4	**2.1**
DBP21-New-26: IT Sustaining Applications - OneERP Maximo incremental functionality enhancements	1.0	0.0	0.2	0.2	0.2	0.2	0.2	**1.0**
DBP21-New-27: IT Sustaining Applications - OneERP S/4HANA incremental functionality enhancements	3.3	0.0	0.7	0.7	0.7	0.4	0.7	**3.0**
Corporate IT Sustaining Infrastructure (DBP30)								
Network excl firewalls (DBP30-New01) and OS currency (DBP30-New06)	3.0	2.4	0.7	0.3	0.4	0.2	0.6	**2.2**
Re-proposed network and currency (DBP30-New02, DBP30-New05, DBP30-New07, DBP30-New08, DBP30-New09, DBP30-New10, DBP30-New12, DBP30-New14)	4.4	3.5	1.5	1.7	0.4	0.3	0.4	**4.4**
DBP30-New-13: Meeting Room Refresh	0.6	0.0	0.6	0.0	0.0	0.0	0.0	**0.6**
Vehicles (Fleet & civil equipment) (DBP17)								
CP1700155 - Fleet vehicles	9.1	8.2	1.8	1.8	1.8	1.8	1.8	**9.1**
TOTAL	**59.0**	**44.0**	**17.3**	**11.3**	**7.7**	**11.1**	**6.8**	**54.1**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

4.2 Assessment for DBP21: IT sustaining apps

4.2.1 TBS Upgrades

Basis for Draft Decision

199. In its Draft Decision, ERA provided a significantly lower allowance than DBP had proposed. In summary, ERA's reasoning was that

- DBP had not accounted for the part use of the system for billing of non-regulated services
- DBP's business case model for this system did not include any ongoing capex, and
- DBP had based its cost estimate on historical averages for the previous system, despite a significant factor in its choice for the new system being lower ongoing costs.

Consideration of DBP's response

200. DBP's revised proposal is $1.0m (or 55%) less than it had initially proposed. DBP provides assurance that the costs it has allowed for relate only to the provision of regulated services

201. DBP states that it did not provide for the cost of enhancements or upgrades in its implementation forecast '*…because they could not be forecast with any accuracy*'. This is inconsistent with DBP now seeking an allowance that requires such a forecast. DBP also states that uncertainty in estimating the cost of forward upgrades '*…could incorrectly make or break a business case for any one solution*', though it has now selected and deployed a system based in part on reduce ongoing costs.

202. Nevertheless, DBP has in its revised proposal now undertaken a bottom-up estimate of its required upgrades program, based on evidenced costs for small, medium and large upgrades regarding the number of such upgrades likely to be required. This is a reasonable approach.

Finding on DBP's revised proposal

203. We consider that DBP's revised proposal for TBS upgrades represents a reasonable forecast.

4.2.2 Upgrades of other applications

Basis for Draft Decision

204. While DBP stated in its Initial Proposal that it undertakes risk-based assessment of the need for each upgrade, the proposed program that it based its forecast on was based on undertaking each upgrade according to vendor recommendations. ERA consider that, in accordance with its policy, it would be able to defer some upgrades and/or avail itself of lower cost options. ERA also considered that that DBP would find that some costs would not be attributable to DBNGP.

Consideration of DBP's response

205. DBP accepts that it may be possible to defer some upgrades but maintains that the 20% across the board reduction that ERA applied is not appropriate. In responding to ERA's Draft Decision, DBP has undertaken a bottom-up assessment of each forecast upgrade and identified five projects for which it considers it may be able to defer upgrades. The deferrals that DBP has identified result in a reduction of $0.9m (9.3%) to the forecast that it initially provided for these projects.[31]

206. We consider that DBP has now shown reasonable evidence of having taken the opportunity for deferrals into account and that the process it describes has led to a reasonable revised

[31] Attachment 9.12 – IT Sustaining Apps (AA6), p.7 & 8, and table 2.6

forecast. In forming this view, we observe that the two largest upgrades[32] comprise around half of the forecast, and are planned for the penultimate year, meaning that a one-year deferral of these projects would still occur within the regulatory period. In effect, therefore, DBP's revised forecast represents close to a 20% reduction for projects other than these two.

207. We also note DBP's information on the proposed upgrade of S/4HANA in 2029 as part of required lifecycle management[33] and the additional information that DBP has provided on its consideration for other proposed upgrades,[34] which satisfies us as to the level of consideration that DBP has given.

Finding on DBP's revised proposal

208. We consider that DBP's revised proposal for upgrades for 'other applications' represents a reasonable forecast.

4.2.3 Refresh of core systems – Application (system) enhancements

Basis for Draft Decision

209. ERA disallowed DBP's proposal for application enhancements because DBP did not provide evidence that the enhancements either will deliver benefits or will only be undertaken on the basis of providing realisable benefits. ERA also considered that, to the extent that such enhancements are undertaken, it is reasonable to expect that they will realise benefits in excess of the investment.

Consideration of DBP's response

210. DBP does not accept ERA's Draft Decision and states that:

> *While we accept in principle that the application enhancements program forecast could be revised downwards via a more granular look at business requirements, we do not consider it reasonable or realistic to assume zero enhancements will be required over the next five years.*[35]

211. DBP notes that drivers for enhancements include operational, regulatory, audit compliance, market and customer needs as well as covering matters such as bug fixes.

212. In undertaking our review of DBP's Initial Proposal, our primary concern was the lack of justification that DBP provided in defining its proposed program. For its Revised Proposal, DBP has now undertaken a prioritisation process based on criteria shown in matrix form in Figure 4.1.

213. DBP's revised forecast is to now address only Priority 2 initiatives, for which it forecasts a cost of $2.1m, compared with its Initial Proposal for $2.8m.[36] We consider that the more granular assessment that DBP has undertaken represents a reasonable process for arriving at a prudent and efficient forecast.

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32 CP1700235: Maximo Upgrades and DBP21-New-24: IT Sustaining Applications - OneERP S/4HANA Upgrades

33 Attachment 9.12 – IT Sustaining Apps (AA6), section 1.2.2.1

34 As above, sections 1.2.2.2 to 1.2.2.3

35 As above, page 20

36 DBP states that it does not have any current Priority 1 enhancements. Noting that any 'low' priority projects are defined in terms of process improvement and efficiency benefits, we would expect that DBP may choose also to undertake these but that, if so, they would essentially be 'self-funding' as indicated in ERA's Draft Decision.

Figure 4.1: DBP's system enhancements and prioritisation matrix

			Urgent	High	Medium	Low
			Risk = extreme Must be addressed immediately	Risk = high 30 days or in line with regulatory/audit action timeframes	Risk= intermediate 2-6 months or as soon as practicable if enhancements will help AGIG achieve safety, reliability or customer impact targets	Risk = low/negligible No time limit but aim is to deliver when practicable if it may result in process improvement, automation or efficiency
Impact & benefit	Organisation	>$100k or 1 FTE	Priority 1	Priority 1	Priority 2	Priority 3
	Site	$50k-$100k or 0.5-1 FTE	Priority 1	Priority 1	Priority 2	Priority 3
	Department	$25k-$50k or 0.25-0.5 FTE	Priority 2	Priority 3	Priority 4	Priority 4
	Team	<$25k or 0.25 FTE	Priority 3	Priority 3	Priority 4	Priority 4
	Individual	Intangible	Priority 3	Priority 4	Priority 4	Priority 4

Source: DBP revised plan, attachment 9.12, table 2.10

Finding on DBP's revised proposal

214. We consider that DBP's revised proposal for 'core system' enhancements represents a reasonable forecast.

4.2.4 OneERP Maximo and SAP 4/HANA incremental functionality enhancements

Basis for Draft Decision

215. ERA disallowed these two application enhancement projects. The reasoning for this is as summarised above for 'core systems'.

Consideration of DBP's response

216. DBP states that it manages incremental functionality enhancements across One ERP, comprising SAP S/4HANA, Maximo and Success Factor, as a single program. We therefore assess its revised proposal from this perspective.

217. DBP rejects ERA's disallowance of any forecast for enhancement for these systems. DBP provides information that it expects to need enhancements due to

- Regulatory and reporting changes, including for sustainability reporting and for customer protection and affordability
- Competitive and operational pressures, including digital transformation such as 'Internet of Things, automation and AI and data-driven decision-making
- Changing gas demand.

218. DBP provides evidence of its processes for managing OneERP enhancements, including:

- A workflow that illustrates its process for vetting, estimating and providing for cost benefit assessments

- The process by which it calculates the value of each enhancement and from which it prioritises its work program
- A matrix that illustrates its current enhancements 'backlog' and the status of a range of enhancements with reference to its assessment and governance processes
- An overall OneERP roadmap through to 2030 illustrating the strategic development plan for these systems.

219. DBP also provides information on OneERP enhancements undertaken in Q1 2025, in which it invested $339,000 with estimated 'bankable savings/efficiencies' of $203,500 and other quantifiable benefits in the form of cost avoidance, in excess of $1 million.[37]

220. DBP has re-estimated and reduced its forecast for OneERP applications as follows:

- For SAP S/4HANA, DBP references a cost of $1.5m that AGIG has incurred since October 2023 and which (though not specified) appears to be around 18 months. From this, it estimates an ongoing AGIG cost of $1m per year, of which 65% is attributable to DBNGP
- For Maximo, DBP provides information that it has incurred between $150,000 and $200,000 per year over the past five years and incurred $172,000 in 2024.

221. We consider that this information provides a reasonable basis for DBP's forecast of $4.0m (combined) for ongoing enhancements to these applications.

Finding on DBP's revised proposal

222. We consider that DBP's revised proposal now provides reasonable evidence of its need for provision for ongoing enhancements to its OneERP systems, and that its forecast is reasonable amount for this.

4.2.5 Findings summary and implications

223. With reductions that it has now made, including through accepting some aspects of ERA's Draft Decision, we consider that DBP's proposed forecast for IT sustaining applications is reasonable.

4.3 Assessment for DBP30: IT sustaining infrastructure

4.3.1 Aspects of Draft Decision accepted

224. In our Initial report, we presented a breakdown of proposed expenditure, which we reproduce in Table 4.2, and which is based on information that we sought from DBP to assist in understanding the mapping of projects to AGIG OneIT.

[37] DBP's figures are for the whole of AGIG, but we nevertheless accept them as indicative of its process and relativities that would apply to DBNGP

Table 4.2: DBP's proposed capex allowance for IT infrastructure in AA6 ($m, real 2024) – Initial Proposal

Project group	2026	2027	2028	2029	2030	AA6 Total
Data Centre (AGIG OneIT)	0.40	0.13	0.13	0.13	0.23	**1.01**
Network and currency						
AGIG OneIT	1.83	2.01	0.67	0.61	0.62	**5.74**
Other	0.41	0.00	0.21	0.00	1.07	**1.68**
Subtotal	2.24	2.01	0.87	0.61	1.69	**7.42**
End user devices	1.41	0.77	0.77	0.77	0.78	**4.51**
Field devices	0.75	0.76	0.00	0.00	0.00	**1.51**
Total	**4.80**	**3.66**	**1.77**	**1.51**	**2.70**	**14.45**

Source: EMCa table derived from DBP response to IR EMCa03

225. In its Draft Decision, ERA:

- Accepted DBP's proposal for Field Devices
- Did not accept DBP's proposal for End User Devices, and reduced the proposed amount by 20%
- Did not accept DBP's proposal for 'Data Centre (AGIG OneIT) and reduced this by 10%.

226. DBP has accepted these aspects of ERA's Draft Decision

227. For the remainder of our assessment, we therefore focus on the Network and Currency projects, for which DBP has not accepted ERA's Draft Decision. These are the projects grouped under the heading 'Corporate IT sustaining infrastructure (DBP30)', together with the Meeting Room Refresh project, in Table 4.1.

4.3.2 Network and Currency projects

Basis for Draft Decision

228. In our Initial Report we observed that DBP's proposal represented a very significant increase in IT infrastructure expenditure. DBP referred to this as being associated with an AGIG OneIT initiative, which included establishing a West Coast Data Centre. However, as ERA noted in its Draft Decision, this was not supported by cost benefit analysis and DBP did not provide evidence of the efficiencies or benefits to DBNGP that it claimed would result from its investment in this initiative.

229. ERA considered that, consistent with its historical claims, DBP would find opportunities for some deferral of some IT infrastructure refresh.

Consideration of DBP's response

230. In its Revised Proposal, DBP has undertaken a bottom-up risk/prioritisation assessment of its likely ability to defer some elements of its proposed network and currency program.[38] DBP provides a table in its Revised Proposal in which it presents the logic that it has applied in considering the ability to defer.[39]

231. In its Initial Proposal, DBP proposed two projects that it referred to as Network (excl firewalls) and OS currency, which summed to $3.0m. As we show in Table 4.1, ERA reduced these by 20%, to $2.4m. However, in its Revised Proposal DBP has reassessed the timing of these projects and proposes a further-reduced amount of $2.2m.

38 Attachment 9.12 - IT sustaining infrastructure, section .2.1

39 As above, table 1.3

232. For other projects, DBP presents reasoning as to why it would not be reasonable to defer. We consider that DBP's logic on this is reasonable, noting that for these projects

- There is a significant 'front loading' of expenditure, such that any realistic deferral would still be within the period
- DBP explains the implications of deferring or not proceeding with reasonable bespoke explanations that refer to risk and cost-effectiveness.

233. We consider that DBP's Revised proposal shows evidence of a reasonable process of considering the opportunity for strategic deferrals and that its revised forecast, which is $0.8m (or approximately 10%) less for this component, represents a reasonable forecast.

Findings on DBP's Revised Proposal

234. We consider that DBP's revised proposal for Network and Currency projects represents a reasonable forecast.

4.3.3 Re-proposed Meeting Room Refresh

Basis for Draft Decision

235. In its Draft Decision, ERA found that DBP had provided minimal information on the need for its proposed meeting room refresh project. ERA disallowed it on the basis that DBP had not justified it.

Consideration of DBP's response

236. DBP has now provided information in support of the need for the upgrade of its meeting rooms. We consider that the following information is relevant:

- DBP refers to the importance of this capability, given its large geographical footprint, and its role in assisting (for example) with remote asset management and with effective engagement with shippers and suppliers
- DBP currently has on average three failures or issues with the AV equipment, per month, with AV issues frequently impacting effective operation of meetings
- Current equipment is from now on extended support and within the period will be out of support
- DBP estimates that a reactive approach to replacing the equipment would be around 20% to 30% higher than its proposed proactive approach
- There are 17 current AV systems – in other words, this is not just involving refresh of 'a' meeting room.

237. With this additional information and noting that the current system was installed in 2021, we consider that it is reasonable to allow for a refresh of the suite of AV equipment across DBP's domain, within AA6.

Findings on DBP's Revised Proposal

238. We consider that DBP has now provided adequate justification for its proposed refresh of AV equipment and that its proposal represents a reasonable forecast.

4.3.4 Findings summary and implications

DBP's revised proposal for IT sustaining infrastructure is reasonable

239. Taking note that DBP has accepted some aspects of ERA's Draft Decision for IT sustaining infrastructure, and that it has reassessed the need for and/or ability to defer some projects, we consider that its revised proposal is reasonable.

4.4 Assessment for Motor Vehicles

4.4.1 Basis for Draft Decision

240. DBP's proposal for AA6 fleet vehicle replacements is almost double its AA5 expenditure.

241. In its Draft Decision, ERA accepted that DBP's preferred option for fleet vehicle replacements was the most prudent of the three options that it considered. However, ERA noted that *'…DBP also has a policy of seeking to extend the life of vehicles based on an assessment of the vehicle condition*.'[40] DBP did not provide evidence of having taken the implications of this policy into account in its forecast and ERA applied a 10% reduction to account for this.

4.4.2 Response to DBP's Revised Proposal

DBP considers that it has already taken condition-based life extension into account, by retaining some vehicles that will be beyond 150,000km in 2030

242. DBP states that it considers that its preferred option already reflects application of '*…life extension strategies to approximately 26% of our total fleet*', this being the proportion of vehicles that (by 2030) would still exceed a 150,000km 'threshold' that it refers to. DBP represents a mileage distribution table that it had provided in its Initial Proposal, which we reproduce below.

243. As DBP notes, the Draft Decision effectively assumes six fewer vehicles will be replaced, resulting in six more vehicles than the 28 indicated in its preferred option, being over 150,000km by 2030.

DBP's revised proposal does not provide information to suggest that replacing six fewer vehicles than it proposes over the period, will result in any material increase in risk

244. While DBP's proposed replacement program does leave it with a number of vehicles having travelled more than 150,000km, by DBP's own explanation this is not a hard threshold beyond which continued operation is considered too risky.

245. DBP claims that evidence of its condition-based life extension is that it has not proposed 'option 3', which would have replaced all vehicles over 150,000km. From information that DBP provided and which we reproduce in Figure 4.2, we observe that DBP is currently operating with around 60% of its fleet over this threshold.[41] DBP states that it maintains its vehicles in line with manufacturers' requirements and that it experiences good reliability and durability.[42] We consider that it will find that it is able to continue to operate its fleet reliably with far fewer very high mileage vehicles, albeit still with a number being prudently managed beyond 150,000km.

40 ERA Draft Decision, Attachment 4, paragraph 354

41 i.e. 60 /106 vehicles, as shown in the first column of the table

42 As ERA refers to in its Draft Decision Attachment 4, at paragraph 354

Figure 4.2: Current and forecast distance travelled by light vehicle type

000's kms	Vehicles in 2025	Number of vehicles in 2030 based on strategy		
Strategy		Do not replace	Replace 2025 >150,000 km	Replace all as they reach 150,000 km
>250	26	61	5	0
>200 < 250	18	9	9	0
>150 < 200	16	10	14	0
>100 < 150	10	7	21	21
>50 < 100	14	4	27	37
> 0 < 50	22	25	20	48
Vehicles replaced	**NA**	**0**	**60**	**80**
Vehicles over threshold	**60**	**80**	**28**	**0**
Total vehicles	**106**	**106**	**106**	**106**

Source: 'Table 2.1' as re-presented in DBP Revised Final Plan, Attachment 9.12

246. In short, we consider that DBP's references to 'life extension' being the retention of any vehicles beyond 150,000km is relative to a threshold that DBP has not itself justified and does not (and need not) apply as a replacement criterion. A program involving 54 replaced vehicles over the period (as implied by ERA's 10% reduction) rather than 60 will still allow DBP to retire nearly all vehicles over 250,000km, as it plans to do in any case, and those vehicles with over 150,000km should mostly lie in a range 150,000km to 200,000km.

247. We consider that ERA's Draft Decision provides a reasonable allowance for a volume of vehicle replacements that takes account of vehicle condition in accordance with DBP's policy.

DBP's assumed unit cost per fleet vehicle is reasonable

248. In its Revised Proposal, DBP suggests that the reduction applied by the ERA could refer to unit costs. That is not our reading of the Draft Decision, however for clarity we note that we consider that DBP's unit cost basis was adequately supported and acknowledge DBP's statement that it '*remains our best estimate*'.

4.4.3 Findings summary and implications

ERA's Draft Decision is a reasonable forecast

249. We consider that ERA's Draft Decision provides a reasonable forecast for DBP's vehicle fleet replacement, and that new information that DBP has provided does not lead us to a different view.

Table 4.3: Summary of EMCa adjustments for DBP17 – Vehicles and civil fleet - $m, real 2024

Business case subcategory	DBP Proposed	EMCa Adjustment	EMCa Adjusted	*EMCa Adjustment (%)*
Fleet vehicles	9.09	-0.91	8.18	*-10%*
Other vehicles and civil equipment	3.61	0.00	3.61	*0%*
Total	**12.70**	**-0.91**	**11.79**	**-7%**

Source: EMCa

4.5 Findings summary and implications

4.5.1 Findings summary

DBP's revised allowance for computers is reasonable

250. With reductions that it has now made, and evidence that it has now provided, we consider that DBP's revised forecast for 'computers' is reasonable.

DBP's re-proposed allowance for motor vehicles is overstated

251. We consider that DBP has not provided sufficient evidence to justify the level of fleet vehicle replacements that it has proposed. We consider that the Draft Decision in this regard represents a reasonable forecast of DBP's requirements.

4.5.2 Implications for revised forecast

252. In Table 4.4 we summarise the implications of our findings for computers and motor vehicles.

Table 4.4: DBP proposed and adjusted allowance for Computers and motor vehicles assets - $m, real Dec 2024

Project	DBP Initial	ERA DD	DBP RRP	EMCa Adj. ($)	EMCa Adjusted	EMCa Adj. (%)
Accepted:						
Various projects	20.8	19.6	19.6	0.0	19.6	0%
Not accepted:						
Corporate IT Sustaining Apps (DBP21)						
TBS upgrades (DBP21-04)	1.8	0.5	0.8	0.0	0.8	0%
Upgrades of other applications (CP1700235, DBP21-New24, DBP21-New23, CP1700472, DBP21-New09, DBP21-New19, DBP21-New20, DBP21-New21, DBP21-New22, DBP21-New25)	12.2	9.7	11.3	0.0	11.3	0%
DBP21-New-08: IT Sust. App. - refreshes of core business applications - System enhancements	2.8	0.0	2.1	0.0	2.1	0%
DBP21-New-26: IT Sust. App. OneERP Maximo incremental functionality enhancements	1.0	0.0	1.0	0.0	1.0	0%
DBP21-New-27: IT Sust. Apps. OneERP S/4HANA incremental functionality enhancements	3.3	0.0	3.0	0.0	3.0	0%
Corporate IT Sustaining Infrastructure (DBP30)						
Network excl firewalls (DBP30-New01) and OS currency (DBP30-New06)	3.0	2.4	2.2	0.0	2.2	0%
Re-proposed network and currency (DBP30-New02, DBP30-New05, DBP30-New07, DBP30-New08, DBP30-New09, DBP30-New10, DBP30-New12, DBP30-New14)	4.4	3.5	4.4	0.0	4.4	0%
DBP30-New-13: Meeting Room Refresh	0.6	0.0	0.6	0.0	0.6	0%
Vehicles (Fleet & civil equipment) (DBP17)						
CP1700155: Fleet Vehicles	9.1	8.2	9.1	-0.9	8.2	-10%
TOTAL	**59.0**	**44.0**	**54.1**	**-0.9**	**53.2**	**-1.7%**

Source: EMCa

5 AA6 CAPEX – ASSESSMENT FOR BUILDINGS ASSET CLASS

DBP has challenged ERA's Draft Decision for two projects:

- Jandakot site redevelopment
- Northern hub at Karratha.

In its Draft Decision, ERA determined that DBP had not justified the scope, scale and level of expenditure that it proposed to redevelop its Jandakot site. In its Revised Proposal, DBP has re-proposed the same amount that it initially proposed and has provided additional information. We consider that this information now provides a reasonable justification for DBP's proposal and its associated cost, but that DBP has not accounted for the joint use of this facility for DBNGP and for AGIG's wider business interests.

For its proposed Northern hub development, DBP has reduced its forecast expenditure from $2.0m to $0.6m, to now encompass only planning and assessment to support consideration of this development in AA7. We consider that this reduced amount is justified.

5.1 DBP's revised proposal

253. In its Revised Proposal, DBP proposes $50.3m forecast for AA6 capex in the Buildings asset class. This is $1.5m less than it initially proposed, but $23.5m more than ERA's Draft Decision.

254. As we show in Table 5.1, DBP has accepted ERA's Draft Decision for projects with an aggregate value of $15.1m, and which (for these projects) was as DBP had proposed.

255. For Jandakot site redevelopment, DBP has not accepted the reduced amount that ERA determined and has reproposed the same amount as in its Initial Proposal.

256. The Northern Hub at Karratha is a project for which DBP previously proposed $2.0m. ERA did not accept this, and DBP now proposes a reduced amount of $0.6m in the final year of the period.

Table 5.1: DBP's Revised Proposal for AA6 capex for the Buildings asset class - $m. real December 2024

Project	DBP Initial Proposal	ERA Draft Decision	DBP Revised AA6 Capex					
			2026	2027	2028	2029	2030	TOTAL
Accepted:								
Various projects	15.1	15.1	0.3	6.7	0.9	6.6	0.6	**15.1**
Not accepted:								
DBP10-NEW-02: Jandakot Site Redevelopment	34.6	11.7	1.1	16.7	16.9	0.0	0.0	**34.6**
CP1700207: Northern hub at Karratha (DBP38)	2.0	0.0	0.0	0.0	0.0	0.0	0.6	**0.6**
TOTAL Revised Proposal	**51.8**	**26.8**	**1.4**	**23.4**	**17.8**	**6.6**	**1.2**	**50.3**

Source: EMCa table derived from DBP Attachment 9.6A Revised RP Capex Model, Attachment 9.11 (update EMCa020) and ERA Draft Decision information

257. DBP provides new information on its proposed Jandakot redevelopment as part of its business case DBP10, while new information on its proposed Northern Hub is described in DBP's Attachment 9.12: Structures and Operational Sites.

5.2 Assessment for Jandakot facility redevelopment

5.2.1 Background

Consideration of Jandakot development for AA5

258. For AA5 DBP proposed a redevelopment that was to provide improved office and training facilities, accommodation for the Transmission Operations division, a backup SCADA control room, server and communications facilities and warehousing. DBP stated that this was to replace 30-year old facilities which no longer meet business requirements, operational or safety needs. In its Final Decision ERA determined an allowance of $8.69m (in $2019), which was only fractionally less than the estimate that DBP had provided in its Revised Proposal.[43]

259. DBP states that the global pandemic and subsequent disruptions resulted in a 2-year deferral of the Jandakot redevelopment. Consequently, DBP did not undertake the approved development in AA5 and, at a new cost estimate of $34.6m, proposed to undertake the development in AA6.

ERA's Draft Decision for AA6 and our Initial Review of DBP's proposal

260. In its Draft Decision for AA6, ERA did not approve the amount that DBP had proposed. ERA accepted that the '*…basis for the project remains…*' but that it was '*…concerned by the lack of evidence for an increased scope and expenditure for the project which has not been justified.*' ERA stated that it was '*…concerned by the lack of quality and sophistication of the documentation to justify the proposed expenditure.*' Specifically, ERA noted that DBP '*…did not provide a coherent timetabled plan that would outline what functions would be located at Jandakot, nor a schedule of financial implications nor a CBA*' and that DBP's proposal was '*….unclear on the extent to which the proposed redevelopment reflects the needs of DBNGP customers.*'[44]

[43] In the model that DBP provided us as EMCa03, DBP records ERA's allowance as $8.52m in $2024 terms, which appears to understate the allowance actually provided.

[44] ERA Draft Decision, page 61

261. A particular concern that we had in assessing DBP's Initial Proposal was in understanding why the cost had increased from around $8m to $35m, and the lack of evidence of explanations that we would have expected DBP to have provided to its governing bodies on the reasons for the increase and informing consideration of options for the governing bodies to make. We would have expected this to include (for example) whether to proceed with the project and, if so, information for consideration of any options for rescoping or rescaling the project. We explicitly sought such information from DBP, but in responding, DBP provided other information that did not address our query.[45]

262. Absent information from DBP, we sought to understand the causes of the increase in cost. DBP referred to construction cost increases, but even from the information that DBP provided, it was clear that this could not explain a quadrupling of the cost. Given the considerably more elaborate plans that DBP provided in its AA6 Initial Proposal, and lacking any coherent explanation from DBP, we were left with the view that such an increase could only result from an increase in scope and scale of the redevelopment.

5.2.2 Summary of DBP's response to ERA's Draft Decision

263. DBP maintains that it will redevelop its Jandakot site in AA6 and re-proposes the same capex allowance that it Initially Proposed ($34.6m) which it maintains is a prudent and efficient estimate of what it requires.

264. In response to ERA's Draft Decision, DBP makes the following key points:

- The main reason for the increase in estimated cost (i.e. from circa $8.5m to $34.6m) is not due to increased scope. DBP now states that the main reason for this apparent increase is that its '*…original AA5 estimate was substantially under forecast.*'[46] DBP reinforces this point, stating that *'…assuming $8.5 million was a reasonable cost for the proposed scope of work was a forecasting error'*. [47]
- DBP does acknowledge some change in the '*…design of the new facility* [which] *has shifted in line with changing workforce expectations and retention strategies, and* [redacted]'[48]
- Construction costs have '…*significantly increased post-pandemic'*

265. In its response, DBP has also re-emphasised cost comparability with ATCO's adjacent redevelopment, and we consider this as part of our assessment in section 5.2.3.

5.2.3 Assessment of new information in DBP's Revised Plan

Comparison with original AA5 estimate

266. DBP now advises that its original AA5 estimate of the cost of the Jandakot redevelopment was a '…*high-level estimate provided by the proposed developer supported by early site plans and rough concepts'*. DBP further states that this '…*did not reflect the entire scope of works*' and lists twelve '*material items*' that it states were omitted in its original costing.[49]

267. DBP states that it estimates that *'…the forecast error accounts for around $15 million of the variance between the AA5 forecast and the revised AA6 forecast.*' In effect, DBP is therefore saying that rather than $8.5m, this estimate should even at that time have been of the order of $23.5m ($8.5m + $15m).

268. We sought further information from DBP to evidence the extent to which the material omitted items that DBP lists, do in fact explain the increased cost estimate and therefore to provide some evidence of the basis for its attribution of $15m of the increase to these factors. DBP's response does not provide the information that we sought but rather

45 ERA refers to this in paragraph 369 of its Draft decision

46 Attachment 9.12 – Jandakot Facility Redevelopment, p.6

47 DBP also refers to this as a 'forecast error' (Attachment 9.12 – Jandakot Facility Redevelopment, p.12)

48 Attachment 9.12 – Jandakot Facility Redevelopment, p.6

49 Attachment 9.12 – Jandakot Facility Redevelopment, p.11

reiterates that its '*…original AA5 cost forecast of $8.5 million (in $2019) was immature*' and claims that '*….the magnitude of the underestimation is not relevant to the revised cost of the development.*'

269. While DBP has not explained this element of the increase, we consider that it has now provided sufficient evidence that its original AA5 estimate of $8.5m was very significantly understated. We consider it an indictment on DBP's processes that it presented such an estimate for regulatory approval; we are also surprised by the lack of evidence of internal governance information that DBP has provided, which we would expect to have addressed this significant forecasting error and its implications for the project. While we consider it instructive to understand the scope of the redevelopment and its evolution, in our assessment of this Revised Proposal we put aside further comparisons with DBP's original cost estimate and ERA's subsequent approval based on that estimate and focus on the prudency and efficiency of the project as now presented.

Scope of redevelopment

270. DBP states that the main scope changes it has made (since its AA5 proposal) are (a) to delete the need for overnight accommodation and (b) [redacted] In Table 5.2 we reproduce DBP's table comparing its 2019 scope with its current scope. [redacted] note a considerable increase in warehouse area and that the office building now has a smaller footprint but a floor space indicating two levels.

271. While end of trip and outdoor amenities have been added, DBP states that these are not a material shift in scope.[50]

Table 5.2: Comparison of 2019 and 2025 Jandakot redevelopment scope

2019 Jandakot redevelopment scope	2025 Jandakot redevelopment scope
Asbestos removal	Asbestos removal
Construction of a new two-storey 1,500m2 footprint office building, total floor space not defined	Construction of a new two-storey 1,118m2 footprint office building with ~2,200m2 of floor space
Redevelopment of the existing ~1,600m2 warehouse, and construction of a ~2,000m2 warehouse expansion and workshop, retaining the current outdoor storage area	Redevelopment of the existing ~1,600m2 warehouse, and construction of a 3,311m2 warehouse expansion and workshop, replacing the current outdoor storage area
Vehicle management and traffic flow redirection to accommodate at least 20 heavy plant movements per day, plus light vehicles for staff and visitors	Vehicle management and traffic flow redirection to accommodate at least 20 heavy plant movements per day, plus light vehicles for staff and visitors
New training and meeting facilities	New training and meeting facilities
[redacted]	[redacted]
Bushland areas, gardens and landscaping	Bushland areas, gardens and landscaping
Overnight accommodation facilities	End of trip (EOT) facilities and outdoor amenities, including amphitheatre and basketball court

Source: DBP Attachment 9.12, Table 1.4

272. DBP estimates that [redacted] but which is offset by a saving of a similar amount from removing the overnight accommodation.[51] DBP states that [redacted]

50 Attachment 9.12 – Jandakot Facility Redevelopment, p.8

51 As above, p.9

[redacted].[52] While DBP provides little information to justify this decision, we consider [redacted]

273. We consider that DBP has now reasonably demonstrated that, while it has made some refinements to the scope of the proposed redevelopment, the 'core elements' of the development remain similar. The corollary to this is that the increased cost is not substantially due to scope increases but rather, as shown in the previous subsection, is because the original estimate was very significantly understated.

Construction cost increase

274. DBP estimates that increased construction costs account for around $5m to $10m of the increased costs since its original (AA5) estimate.[53]

275. In our Initial Report to ERA, we accepted that construction costs had increased in real terms and we sought to account for this in our advice to ERA. As we have stated above, we are assessing DBP's revised proposal as now presented and disregarding DBP's original estimate as a determinative factor. Nevertheless, DBP's new information helps in understanding that, while construction costs have increased, this is not the main factor driving the increase from that original estimate.

5.2.4 Assessment of new information on overall redevelopment cost estimate

DBP's most recent bottom-up cost estimate

276. In responding to our information request in which we sought information on the increase in cost relative to its original AA5 estimate, DBP provided an additional document which sets out what we assume to be current advice on the probable cost of the redevelopment.[54] The document provides an itemised cost estimate that totals $41.3m (in $2025 real terms), but also includes tabulated savings suggestions to DBP which, when accounted for, reduce the cost estimate to $35.6m.

277. Since this appears to be the basis that DBP is relying on to justify its current proposal, we have reproduced the information provided in this document in Table 5.3.

278. While the 'pre-savings' cost estimate is more than the estimate DBP provided in its Initial Proposal, and more than it is currently proposing, the costing is broadly consistent with DBP's proposal and indicates savings options that we assume DBP is considering in order to contain the redevelopment cost at a level approximating the amount of $34.6m that it has proposed. We consider that this information provides suitable evidence of a bottom-up costing, undertaken at a suitable level of detail and by an adviser qualified in cost management and quantity surveying.

52 As above, p.3

53 As above, p.10

54 AGIG Jandakot redevelopment, Opinion of Probable Cost estimate, WT Partners, June 2025

Table 5.3: DBP's Opinion of Probable Cost Estimate for Jandakot redevelopment, - $m, June 2025, exc GST

Item	OPC	less savings	OPC with indicated savings
New Buildings			
Office Building	13.91	-	13.91
[redacted]	5.23	- 0.28	4.95
Workshop & Warehouse	6.57	- 1.73	4.84
EOT & Gym	1.62	- 1.39	0.24
Sustainability | ESD Initiatives	0.63	-	0.63
SUB-TOTAL NEW BUILDINGS - JUNE 2025	**27.97**	**- 3.39**	**24.58**
External Works & Services			
Demolition Works	0.32	-	0.32
Site Preparation & External Services	2.23	- 0.77	1.47
Parking & Laydown Areas	2.61	- 1.17	1.44
Outdoor Amenity	0.27	-	0.27
Townhall	0.62	-	0.62
Landscaping	1.08	- 0.36	0.73
Site Fencing, Pedestrian & Vehicular Gates	0.21	-	0.21
Entry Statement & Signage	0.10	-	0.10
Authority Headworks	0.50	-	0.50
SUB-TOTAL EXTERNAL WORKS & SERVICES	**7.94**	**- 2.29**	**5.65**
TOTAL ESTIMATED CONSTRUCTION COST	**35.91**	**- 5.68**	**30.23**
Project On Costs			
Design Contingency (Residual)	1.00	-	1.00
Construction Contingency (Per previous OPC)	1.46	-	1.46
Building Act Compliance (Per previous OPC)	0.15	-	0.15
Consultant Fees (Per previous OPC)	2.78	-	2.78
SUB-TOTAL PROJECT ON COSTS	**5.39**	**-**	**5.39**
TOTAL ESTIMATED PROJECT COST	**41.30**	**- 5.68**	**35.61**

Source: From costing information in Opinion of Probable Cost Estimate, WT Partners Lltd, (26 June 2025). Tables in Executive Summary and in section 3

Benchmarking with ATCO Jandakot redevelopment

279. In its Initial Proposal, DBP presented the cost of ATCO's adjacent redevelopment as a '*useful comparison*'.[55] . However, when we sought an explanation from DBP to assist with understanding the extent to which the ATCO redevelopment was comparable or, if not, any 'normalisation' factors DBP may have considered (such as relative staffing, relative warehousing requirements, training requirements etc) DBP stated in part of its response that:

[55] Attachment 9.5 to DBP's Initial Proposal, p.138

'Our intention was not to benchmark the proposed Jandakot facility to the ATCO facility…' and that *'(w)e don't think that the ATCO and proposed Jandakot facilities can be reasonably compared.'*[56]

280. DBP further stated that:

'The Jandakot facility has been designed specifically to suit the immediate and future needs of the business…' and that *'…'any benchmarking has been entirely for finance comparisons in terms of building costs in aligned industry…''*

281. These statements further drove our interpretation of DBP's response that (a) its proposed redevelopment was specific to DBP and therefore not readily comparable overall and (b) that it had used ATCO costs to verify 'building costs' but not as a comparator for the overall redevelopment costs.

282. In its Revised Proposal, DBP states that its previous response in which it stated that the ATCO and Jandakot facilities cannot be reasonably compared, was intended to describe training facilities (though this was not the substance of our query at that time). DBP now places considerable emphasis on comparing the cost of its proposed redevelopment with ATCO's. We reproduce key statements from DBP's Revised Proposal in Figure 5.1.

Figure 5.1: DBP description of comparability with ATCO redevelopment

'…we maintain that the ATCO development is a useful comparison as it featured many of the same elements that are being proposed for the DBP sites:

- *Redevelopment and relocation of the main office*
- *Construction of storage/warehousing facilities*
- *Redevelopment of operational and training facilities*
- *Traffic management, redirection and parking*
- *Landscaping, footpaths and aesthetics*

Given the ATCO site neighbours our own and was developed in the WA market, it provides an ideal comparison for costing purposes, even if the end facilities differ slightly to DBP's. The cost of the ATCO Jandakot redevelopment closely matches the projected cost of the DBP Jandakot development and the independent surveyor's assessment because the scope of the developments is similar.'

'To clarify, the ATCO Jandakot redevelopment is an example of a similar facility in the industry, located nearby, and we maintain that the financial comparisons in terms of building costs are valid.'

DBP Attachment 9.12, page 12

283. In broad terms, we consider that that there is reasonable comparability between ATCO's redevelopment and that proposed by DBP and it was information on this that we sought in our Information Request to assist us in assessing DBP's Initial Proposal. DBP presents ATCO's Jandakot redevelopment costs as shown in Table 5.4.

[56] DBP response to EMCa IR17, Q38(e)

Table 5.4: ATCO Jandakot facility redevelopment, based on publicly available information

ATCO Gas Jandakot facility	Investment & basis of dollars	Investment in 24/25 dollars
Stage 1:		
ATCO Jandakot Head Office	$14 million (2014)	$19.2 million (24/25)
Stage 2:		
Warehouse and training centre	$9.6 million (2019)	$12.1 million (24/25)
Clean energy innovation hub	$3.5 million (2019)	$3.9 million (24/25)
Total	**$27.1 million (nominal)**	**$35.2 million (24/25)**

Source: DBP attachment 9.12, Table 1.6

284. For indicative comparison purposes, we have summarised DBP's cost summary. In doing so we have relied on the updated costing that DBP has provided with its Revised Proposal. In utilising this information, we have:

- Taken account of two tranches of 'savings' that are indicated in this document and which, when accounted for, result in a cost estimate of $35.6m;
- Listed the cost according to the primary line items, being Office Building, Workshop and warehouse and 'Command Centre'
- To account for other facilities, external works and on-costs, we have allocated these on a pro-rata basis to each of the three primary line item costs referred to above.

Table 5.5: Summary disaggregation of DBP's proposed cost

Primary costs	Direct	Proportionate indirects	
Office building	$13.91	6.98	$20.90
Workshop and warehouse	$4.84	2.43	$7.28
Command centre	$4.95	2.49	$7.44
Total Cost	**$23.71**	**11.90**	**$35.61**

Source: EMCa, derived from costing information in Opinion of Probable Cost Estimate, WTP ltd, tables in Executive Summary and in section 3

285. Relative to the ATCO cost estimation, we observe that:

- The aggregate costs are almost identical
- The office building cost is similar, though our understanding is that ATCO's office building houses around 200 staff[57] compared with DBP's design brief for 340 personnel
- The ATCO estimate includes a 'clean energy innovation hub' that is not relevant to DBP
- DBP's estimate [redacted] that is not relevant to (or at least is not separately itemised) in the ATCO costing.

286. While a more granular comparison would take account of relative staff accommodation and warehousing needs and other potential differences in requirements, at a high level we consider that the comparison indicates that DBP's cost estimate is not materially inconsistent with the ATCO redevelopment cost.

Conclusion on overall redevelopment cost estimate

287. We consider that DBP's bottom-up costing presents as a reasonable, evidenced estimate of the probable cost of the proposed redevelopment, and that this is further validated by comparison with cost of the adjacent ATCO Jandakot redevelopment.

[57] From website information

288. We consider that:

- DBP has now provided a reasonable indication that the scope of the proposed redevelopment is aligned with needs that it has previously demonstrated, and which ERA has previously accepted
- DBP has now provided a reasonable indication of what staff and what functions it will transition to Jandakot, and which further supports the redevelopment scope
  - Examples of this include DBP's articulated plans for the numbers of staff who will be transitioned to Jandakot, purposing the [redacted] for the DBNGP system, and through justification for the extent of warehousing and staff facilities incorporated into the redevelopment scope.
- DBP has provided an adequately justified estimate of the cost of the redevelopment.

5.2.5 Consideration of utilisation of facility for DBNGP

DBP's revised information

289. In our Initial Report, we observed that the Jandakot redevelopment was presented as an AGIG redevelopment, and that the extent to which the facility might be utilised in providing support to DBP's non-regulated operations and also to wider AGIG operations, was unclear.

290. We sought new information that might help to understand the extent to which the redevelopment is to service the needs of DBNGP. Relevant information that DBP provided includes the following: [58]

- For the [redacted], DBP advises that '…*5% to 10% is a reasonable estimate of the utilisation between DBP regulated and unregulated and AGIG other activities…*' '*… with the overwhelming majority* [of DBP utilisation] *dedicated to DBP regulated services.*'
- For the Jandakot facility more generally, based on proportionate RAB between DBNGP and AGID's WA assets,[59] DBP states that '…*a 90/10 split in utilisation is a reasonable and supportable estimate'.* DBP also states that '…*the split will be around 5% to 10%....based on expectations of staff numbers dedicated to our regulated and unregulated assets*.'
- DBP estimates that 98% of warehousing inventory supports DBNGP.
- DBP states that '(t)*he staff based at the Jandakot facility work almost exclusively on WA assets, specifically DBP and AGID assets'* and that '…*involvement in national AGIG initiatives* [is] *minor, infrequent and not operationally material'*.
- DBP states that '*(o)utside of the* [redacted] *we estimate that the dedication of staff resources to wider AGIG operations to be around 5%*.'

Our assessment

291. From this information, it is clear that the redeveloped Jandakot facility will not be solely dedicated to the needs of the regulated DBNGP, and that the facilities to be provided will be utilised in part in the provision of wider AGIG services. We take this into consideration in our assessment of an alternative forecast of prudent and efficient DBNGP capex in section 5.2.8. In that section, we present the evidence and basis for our alternative forecast, but which suggests that DBP's various estimates of around 5% to 10% as above understate the extent to which its Jandakot facility will be required for purposes other than the provision of services to DBNGP.

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58 DBP response to EMCa IR21, question 2

59 AGID is AGI Developments, which own and operate certain WA developments other than DBNGP. Refer to Figure 3.1 in our Initial Report to ERA (May 2025) for an overview of AGIG entities.

5.2.6 Implications for CBD lease costs in DBP's opex forecast

DBP's revised information

292. In its Revised Proposal, DBP makes the following statements

> *'We maintain the AA6 forecast capital expenditure on Jandakot at $34.6 million. This investment is necessary to allow us to retain and attract staff, while reducing our accommodation footprint in Perth CBD. By redeveloping the Jandakot facility as proposed, we can relinquish approximately 1,489.5 m2 in office space at 140 St Georges Terrace, avoiding lease costs of around $1.8 million per year from August 2027 onwards.'*[60]

> *'Once the Jandakot facility is redeveloped, we propose 130 staff will transition to the new Jandakot office, allowing us to relinquish around half of our leased space on levels 22 and 23. We will also reduce our footprint on Level 21, retaining only a section for legal and executive staff, plus meeting space.'*[61]

293. However, after referring again to the expected $1.8m per year saving in lease costs from August 2027, DBP states the following:

> *'We have not sought to include the reduction in our forecast capex at this point as this is an indicative estimate only'.*

> *'These lease costs are capitalised, this means that as and when we relinquish our floor space in the CBD, the costs will no longer be added to the asset base. This ensures we will not recover costs we don't incur. The retention of those estimated forecast costs (i.e. not "banking" the potential savings) in our AA6 forecasts will balance the risk of any delay in that lease rolling off, while ensuring our customers are no worse off.'*[62]

294. We sought clarification on DBP's statement that the lease costs are capitalised, as this was not evident in its capex forecast. DBP responded as follows:

> *'We need to clarify that the 140 St Georges Terrace lease costs are recognised as Opex for regulatory accounting purposes and have not ever been capitalised to the regulated asset base.'*[63]

Our assessment

295. We consider it to be inconsistent for DBP to propose Jandakot redevelopment with capex aligned to its planned relocation of staff from August 2027, but to also assume for regulatory purposes that it retains all of its CBD leased premises and does not allow for the lease savings that it estimates it will achieve by relinquishing a significant proportion of its current floor space.

296. DBP's response to our IR contradicts the statement made in its Revised Proposal attachment, that the lease costs are capitalised and that, once relinquished, the costs will not be added to the asset base. To the extent that ERA determines that Jandakot redevelopment capex is prudent and efficient, this will be added to the prospective RAB meaning that capital-related costs will be included in DBP's AA6 tariffs. By not accounting for associated reduction to lease costs, these too would flow through to DBP's tariffs, which in effect therefore would double-up accommodation costs by encompassing the costs of the redeveloped Jandakot facility and the CBD lease.

297. We consider that DBP's AA6 forecast needs to relate to an aligned accommodation plan. DBP has stated that its redevelopment plan is to enable relocation of its staff from August

60 Attachment 9.12 - Jandakot facility redevelopment, p.2 & p.3 [CONFIDENTIAL TEXT]

61 Attachment 9.12 - Jandakot facility redevelopment, p.9.

62 As above, p 9

63 DBP response to EMCa IR21, Q4

2027, and its lease cost assumptions need to be consistent with this. As we state in section 7.3.7, we have separately established that DBP's lease cost opex is included under a category that it labels as 'Government Charges' and, in that section, we propose accounting for the lease cost relinquishment through a negative opex step change that aligns with DBP's stated timetable.

5.2.7 Further commentary on project governance and transition planning

298. We remain surprised by the lack of governance information that DBP has been able to provide, that would evidence consideration of the substantial increase in the estimated cost for the redevelopment. We would expect this to have included formal consideration of the viability of continuing with the redevelopment, and of alternative (less comprehensive) options to address the issues driving the need for some form of redevelopment.

299. Through an Information Request, we also sought to understand the status of engagement with the 130 staff who would be most affected by moving their primary location to Jandakot and including moving the primary control centre to Jandakot. We asked this because DBP makes statements in its submission to the effect that it has designed the redevelopment with a strong objective of staff attraction and retention.

300. In its response, DBP states that it has '*…not yet sought formal feedback from staff on the proposed relocation'*. DBP states that this is because of *'…pending approvals'*, which (as per our references to project governance above) seems to imply that DBP has not yet committed to the redevelopment, or perhaps to elements of the scope of it. While DBP has provided more evidence of strategic intent and an approach to transition than in its Initial Proposal, we consider that the lack of apparent consultation with staff represents a risk regarding the impact of the redevelopment and associated implications.

5.2.8 Conclusions and implications for forecast expenditure

Conclusions

301. In our Initial Report, we stated that we accepted the need for some form of redevelopment of the Jandakot site. DBP has now more clearly explained how the redevelopment is aligned with a plan to relocate a given number of staff, including its primary control centre and has provided further information that validates its cost estimate both from a bottom-up perspective and by way of a top-down benchmark.

302. From the new information that DBP has provided, we now conclude that DBP's overall capex estimate for the Jandakot redevelopment is a reasonable estimate. However, we consider that two adjustments to DBP's forecast expenditure are warranted such that only prudent and efficient costs will be included in determining DBP's AA6 tariffs:

- DBP has confirmed that the redeveloped site is not wholly for services to DBNGP customers, and we consider that a capex adjustment is required to apportion costs accordingly
- Based on DBP's information that it expects to be able to save lease costs as a result of the redevelopment, we consider that an opex adjustment is required.

303. We provide our assessment of the opex adjustment in section 7.3.7, and our assessment of the capex adjustment follows.

Implications for forecast capex

304. Noting DBP's estimation that the overall Jandakot facility utilisation for services other than to DBNGP would be of the order of 5% to 10%,[64] we sought to validate this from other information that DBP had provided.

305. In response to an information request, DBP provided information that showed that an average of 32% of its gross cost of employees was written to the provision of services other

64 Refer to information under section 5.2.5

than DBNGP. In Table 5.6 we show the information that DBP provided, which shows a relatively consistent allocation over the three years to 2023, averaging 32%.[65]

Table 5.6: Employee costs - $m,

	2021	2022	2023	Average
Total gross employee expenses	56.6	51.5	59.3	
Labour costs written to other categories	17.9	16.2	19.6	
Proportion of gross employee expenses written to other categories[66]	**32%**	**31%**	**33%**	**32%**

Source: DBP response to EMCa IR18, Q39

306. For working purposes, we assume that the allocation of employee costs approximates an allocation of the FTE level of staff effort for the provision of non-DBNGP services. That is, in the absence of information that might distinguish the salary rates of staff providing DBNGP as distinct from non-DBNGP services, DBP's information suggests that 32% of staff effort is applied to non-DBNGP services.

307. We sought to understand DBP's current and planned staffing at Jandakot. DBP provided a range of information, which we summarise in Table 5.7. Taking the current apparent staffing of 120, we identified information with planning requirements stating post-redevelopment staffing requirements of 180 and 240 staff, and we further derived implied staffing requirements of between 206 and 250 staff from information on the number of staff that DBP planned to relocate.

308. The post-redevelopment staff numbers of 240 shown as item D in this table indicate a doubling of staff from 120 current staff that DBP advised. This also aligns closely with DBP's advice that it plans to relocate 130 staff from its CBD office (item E).

309. Putting aside discrepancies between these information sources, for working purposes it appears that a reasonable broad-brush estimate is that the numbers of staff to be accommodated at Jandakot will double. That is, that relocations from head office will comprise around 50% of the post-redevelopment staff numbers.

65 We utilise this three-year period because DBP applied a consistent charge-out regime over this period

66 In its IR response, DBP explained that 'other categories' comprised expenditure other than for DBNGP services (comprising opex and capex)

Table 5.7: Summary of DBP information on current and post-redevelopment Jandakot staff numbers

	Transition from CBD	Full-time	Transient	Total
A: Current staff (per DBP response to EMCa IR17, Jandakot brief, page 8)		***65***	***55***	***120***
B: Design brief (Woods Bagot, Jandakot Accommodation strategy, December 2024, page 24):				**180**
C: From DBP advice on numbers to relocate from CBD (DBP response to EMCa IR17, Q38(d):				
Infrastructure Asset Management	55			
Control centre	17			
Corporate	14			
Total	**86**			**86**
add to 'current staff' as above				*120*
Implied total Jandakot requirement				**206**
D: Based on DBP advise requirements (DBP response to EMCa IR17, Q38(d):		140	100	**240**
E: Based on DBP Revised Proposal relocation numbers				
DBP revised proposal, Attachment 9.12, page 9	130			130
add to 'current staff' as above				*120*
Implied total Jandakot requirement				**250**

Source: sources as shown for each estimate

310. We consider it reasonable to assume for estimation purposes that current staff at Jandakot are essentially wholly assigned to DBNGP and that it is the 'relocated' staff that are more likely to be writing a proportion of their time to non-DBNGP services. As a simplified approximation, we assume therefore that the 50% of post-redevelopment staff who are relocated would be writing 32% of their time to non-DBNGP services, i.e. that 16% of FTE staff effort for Jandakot-based staff post redevelopment is assigned to services other than DBNGP.

311. DBP has proposed $34.6m capex for Jandakot redevelopment. As shown in Table 5.8, a 16% allocation of this cost to allow for non-DBNGP utilisation of the proposed facility results in a DBNGP capex allowance of $29.06m, which we conclude is a reasonable regulatory allowance estimate for this project.

Table 5.8: Jandakot redevelopment cost allocation calculation - $m

Apply allocation to DBP's proposed capex	DBP proposed	less allocation	Net DBNGP	*Percentage non-DBNGP*
Apply to DBP's proposed capex allowance	**34.60**	- 5.54	**29.06**	*-16.0%*

Source: EMCa

5.3 Assessment for Project CP1700207: Northern Depot at Karratha

DBP's Initial Proposal and ERA's Draft Decision

312. In its Initial Proposal, DBP proposed $2.0m to commence development of a northern depot at Karratha, including preliminary works and purchase of a site. While ERA accepted that a circumstantial case for such a depot may exist, it considered that the information that DBP provided showed that this was only at a preliminary stage and did not meet the capex criteria.

DBP's response

313. As shown in Table 5.1, DBP has now proposed $0.6m for the new Northern Depot at Karratha. In its business case attachment, DBP describes this as being for:

- Preliminary design and architectural planning
- Workforce engagement
- Site surveying
- Detailed construction planning
- Market testing and procurement.

314. DBP no longer proposes an allowance to purchase a site within AA6.

Our assessment

315. DBP summarises the case for the proposed allowance as follows:

> *We believe we could defer the purchase of the land until AA7 without much delay in the delivery of the northern depot. However, we would still need to undertake the scoping, design and site investigation and selection during the AA6 period.*

316. We consider that DBP's proposition is reasonable and that the proposed work will provide it with information to support a business case for AA7, should it decide to proceed.

317. DBP interprets from our Initial Report (and ERA's Draft Decision) that a primary reason for disallowing the originally-proposed allowance of $2.0m was that the work would not be completed within AA6. DBP states that it disagrees with this as a principle.

318. We clarify that it is not our general principle that projects are conforming only if they can be completed within a regulatory period. In this instance, however, DBP's initial proposal was for a relatively material amount and not only did not deliver an outcome within the period but also lacked both a business case and a justified timetable evidencing any compelling need to purchase land in AA6 for a potential subsequent development. It is these reasons in combination that led to our recommendation and the wording of DBP's response is consistent with this logic.

5.4 Findings summary and implications

DBP's has proposed a very significant capex allowance for buildings in AA6, but with inadequate justification

5.4.2 Findings summary

319. In summary we consider that:

- DBP has now adequately justified its proposed Jandakot redevelopment and associated cost, however the allocation of this cost to DBNGP is overstated because DBP has not

allowed for the reality that it will use this as a joint facility in supporting its non-regulated services

- DBP has reduced its proposed expenditure in advance of establishing a northern depot at Karratha, and its reduced proposal is reasonable.

320. For the remaining aspects of the proposed buildings expenditure, DBP has accepted ERA's Draft Decision.

5.4.3 Implications for DBP's AA6 buildings capex

321. In Table 5.9 we summarise DBP's proposed capex and the implication for the AA6 capex allowance for Buildings asset class. In this table, we apply subcategories that relate to the adjustments referred to above.

Table 5.9: DBP proposed and adjusted allowance for Buildings asset class - $m, real Dec 2024

Project	DBP Initial	ERA DD	DBP RRP	EMCa Adj. ($)	EMCa Adjusted	EMCa Adj. (%)
Accepted:						
Various projects	15.1	15.1	15.1	0.0	15.1	0.0%
Not accepted:						
DBP10-NEW-02: Jandakot Site Redevelopment	34.6	11.7	34.6	-5.5	29.1	-16.0%
CP1700207: Northern hub at Karratha (DBP38)	2.0	0.0	0.6	0.0	0.6	0.0%
TOTAL	**0.0**	**0.0**	**50.3**	**-5.5**	**44.8**	**-11.0%**

Source: EMCa

6 AA6 CAPEX - ALTERNATIVE FORECAST SUMMARY

Our alternative forecast for AA6 capex is based on DBP's revised proposal but applying adjustments that we have documented for each asset class in the preceding assessments.

Our proposed alternative forecast is $250.9m, which is $11.1m (4.2%) less than DBP proposes in its Revised Proposal.

6.1 Alternative forecast – Year by year

322. To the extent that we consider that DBP's revised proposal is not reasonable, we have applied adjustments at the project level to derive an alternative forecast. In the tables below, we have aggregated these by asset category, showing the resulting alternative forecast, and comparison of the aggregate forecast with DBP's initial proposal, ERA's Draft Decision and DBP's Revised Proposal.

323. The resulting alternative AA6 capex forecast is $250.9m.

Table 6.1: EMCa alternative forecast for AA6 capex - $m, real 2024

Asset class	2026	2027	2028	2029	2030	TOTAL
Building	1.2	20.7	15.1	6.6	1.2	**44.8**
Cathodic/Corrosion Protection	4.8	4.3	3.9	3.8	3.7	**20.4**
Compression	6.6	5.7	6.6	4.5	4.0	**27.5**
Computers and Motor Vehicles	17.1	11.1	7.5	10.9	6.6	**53.2**
Metering	3.6	3.4	4.5	3.8	3.7	**19.0**
Other Depreciable	1.4	1.6	1.1	1.3	1.1	**6.4**
Pipeline	0.2	0.2	0.2	0.3	0.2	**1.0**
SCADA, ECI And Comms	17.0	16.0	15.7	16.9	12.9	**78.5**
TOTAL	**51.9**	**63.0**	**54.6**	**48.0**	**33.3**	**250.9**

Source: EMCa

6.2 Comparisons and adjustments

324. As is shown in Table 6.2, for its revised proposal DBP proposed AA6 capex of $262m, which is $26m less than it initially proposed. From our assessment of its revised proposal, we consider that this remains overstated by $11.1m. The main factors relevant to our alternative forecast are as follows:

- DBP has now largely justified its proposed capex for Jandakot redevelopment, and we therefore consider that a reasonable alternative forecast does not require the significant adjustment that was inherent in ERA's Draft Decision, but that it is nevertheless overstated due to lack of consideration of utilisation of the facility for services other than DBNGP.
- DBP has made reductions of almost $5m to its computers and motor vehicles forecast. We consider that its reduced forecast for IT is now reasonable, but that its forecast for vehicles remains overstated

- While DBP has made substantial reductions to its metering forecast, we consider that it remains overstated and that a reasonable alternative amount is close to ERA's Draft Decision
- While DBP made some reduction to its proposed capex for corrosion protection, we consider that its revised proposal remains overstated and that the ERA Draft Decision remains a reasonable forecast.

325. For the remaining three asset categories, DBP's revised proposal is the same as the ERA's Draft Decision (noting that for two of these categories, ERA accepted DBP's initial proposal).

Table 6.2: Alternative forecast compared with DBP's initial proposal, ERA Draft Decision and DBP's Revised Proposal

Asset class	DBP Initial	ERA DD	DBP Revised	EMCa Adj. ($)	EMCa Alternative	EMCa Adj. (%)
Building	51.8	26.8	**50.3**	-5.5	44.8	*-11.0%*
Cathodic/Corrosion Protection	23.6	20.4	**22.8**	*-2.4*	**20.4**	*-10.6%*
Compression	33.3	24.0	**27.7**	*-0.2*	**27.5**	*-0.8%*
Computers and Motor Vehicles	59.0	44.0	**54.1**	*-0.9*	**53.2**	*-1.7%*
Metering	31.8	18.8	**21.0**	*-2.0*	**19.0**	*-9.4%*
Other Depreciable	6.4	6.4	**6.4**	*0.0*	**6.4**	*0.0%*
Pipeline	1.0	1.0	**1.0**	*0.0*	**1.0**	*0.0%*
SCADA, ECI And Comms	81.2	78.5	**78.5**	*0.0*	**78.5**	*0.0%*
TOTAL	**288.0**	**219.8**	**262.0**	**-11.1**	**250.9**	**-4.2%**

Source: EMCa, with historical information from DBP Attachment 9.6A DBP revised FP capex model

7 AA6 FORECAST OPEX

DBP proposes a revised AA6 opex allowance of $622.3m. This would represent around $30m less than DBP Initial Proposal but $87m more than ERA's Draft Decision.

We consider that DBP's revised proposed allowance is not reasonable. Our main concern, which remains the same as our review on DBP Initial proposal, is with its proposed base year value for its wages and salaries opex category, which incorporates an accounting change and additional proposed adjustments that result in an amount that is significantly higher than the relatively stable opex it has incurred for many years.

DBP has proposed a revised amount for opex step changes which is less than in its Initial Proposal but more than ERA's Draft Decision. DBP has adequately justified its proposed (relatively small) increase in insurance costs. However, DBP has been unduly selective in applying reductions to proposed IT opex step changes and in aggregate these remain overstated.

For bottom-up opex, DBP has re-proposed its initially proposed amounts for GEA Turbine Overhauls and for Station inspections. From new information DBP has provided, we consider that its proposal for GEA turbine overhauls is now reasonable; however, we consider that its Station Inspections proposal is not reasonable as it fails to apply this only to Existing Stations.

We consider that a reasonable alternative AA6 opex allowance would amount to $557.6m over the period, which is 10% less than DBP's Revised Proposal.

7.1 Introduction

326. In this section, we first summarise ERA's Draft Decision compared with DBP's Initial and Revised Proposals for AA6 opex. We then assess the elements of DBP's revised proposed opex, including how it has applied its forecasting methodology and its assumptions. To the extent that we consider that some elements of DBP's proposed forecast are not reasonable, we provide an adjusted forecast which we consider would provide a reasonable opex allowance that meets the requirements of the NGR.

7.2 DBP's revised proposed AA6 opex

7.2.1 Overview

327. In its Draft Decision, ERA has approved $535.0m (real Dec 2024) for DBP's AA6 opex allowance, a reduction of 18% from DBP's initially-proposed AA6 opex, that was of $652.5m.

328. DBP rejects ERA's Draft Decision and has submitted a Revised Proposal of $622.3m (real Dec 2024), that's 16% higher than ERA's Draft Decision.

329. Table 7.1 shows a comparison between DBP's Initial Proposal, ERA's Draft Decision and DBP's Revised Proposal by BST components, while Table 7.2 shows a comparison by opex categories.

Table 7.1: Comparison between DBP Initial AA6 opex with ERA DD and DBP Revised AA6 - $m, real Dec 2024

	DBP Initial AA	ERA Draft Decision	DBP Revised AA
Efficient Base Year	446.2	366.1	440.0
Step changes	17.3	6.7	15.3
Total recurrent costs	**463.5**	**372.8**	**455.2**
Bottom-up	182.4	157.2	160.2
Labour cost escalation	6.6	5.0	6.8
Total forecast opex	**652.5**	**535.0**	**622.3**

Source: EMCa table derived from DBP opex model attachments 8-1 and 8-1A, ERA Draft Decision Table 5-1, pg.2

Table 7.2: DBP AA6 opex summary by opex category - $m, real Dec 2024

Category	DBP Initial AA6	ERA Draft Decision (DD)	DBP Revised AA6	*Variance DBP Revised vs ERA DD*
Wages & Salaries	229.1	168.2	236.0	*67.8*
Field expenses	67.1	67.1	70.2	*3.1*
Non-field expenses	109.7	84.9	97.1	*12.2*
Government Charges	57.9	52.4	53.5	*1.1*
System Use Gas	116.6	97.6	94.5	*-3.1*
Reactive maintenance	6.3	5.2	5.2	*0.0*
GEA & Turbine overhauls	32.8	29.5	32.8	*3.3*
Inspections & Other Asset Management	33.0	30.1	33.0	*2.9*
TOTAL	**652.5**	**535.0**	**622.3**	***87.3***

Source: EMCa table derived from DBP opex model attachments 8-1 and 8-1A, ERA Draft Decision Table 5-14, pg.28Source: EMCa table derived from DBP opex model attachments 8-1 and 8-1A, ERA Draft Decision Table 5-1, pg.2

330. Table 7.2 above shows the variance between DBP's Revised Proposal compared with ERA's Draft Decision in each opex category. Particularly significant is DBP's 40% higher proposed allowance for wages & salaries, while there is a slight reduction in System Use Gas because DBP has amended its demand forecast resulting in a lower full haul throughput forecast[67].

331. We structure our assessment which follows according to the BST build-up components shown in Table 7.1, that is, by assessment of:

- Base year opex
- Bottom-up opex, and
- Step changes.

332. In section 7.6 we present the implications of the findings from our assessment, by way of an alternative forecast.

[67] DBP's response to ERA Draft Decision, Attachment-8.6 – Operating Expenditure, pg.17-18

7.3 Assessment of Base Year Opex

333. In the following sections we provide our assessment of DBP's proposed base year adjusted efficient opex.

7.3.1 Selection of the base year

334. In its Revised Proposal, DBP has used 2024 actual (January – December) opex as its base year for AA6 revised proposed opex, instead of the combination of actual opex 2024 (January – September) and forecast/estimated opex 2024 (October – December) that DBP used in its Initial Proposal.

335. Similar to its Initial Proposal, DBP then makes several adjustments by adding to its 2024 actual base year, and which we discuss further below.

336. The use of full year 2024 as the base year is reasonable, noting that we assess the reasonableness of the respective opex values and, where applicable, DBP's proposed adjustments in the following subsections.

7.3.2 DBP proposed adjusted base year value

337. Excluding those items for which it provides a bottom-up forecast, DBP has derived a 2024 base year value of $88.0m for its Revised Proposal. This includes proposed adjustments of $4.6m for the following:

- Extra $4.7m for wages & salaries;
- Extra $0.22 for government charges; and
- Reduction of $0.3m on consulting.

338. In the subsections which follow, we assess the extent to which each component of DBP's revised base year opex is representative of a revealed efficient cost and the extent to which adjustments are required to meet this objective.

7.3.3 Base year opex assessment – general expenditure trend considerations

Comparison with DBP historical opex

339. In our review of DBP's Initial proposal, we compared DBP 2024 actual opex with DBP's five years' historical opex to understand the extent to which its 2024 actual opex represents the efficient base year. This comparison, we believe, is still relevant and therefore we show an updated comparison in Table 7.3 below.

340. The table shows that DBP's salaries expenditure of $40.3m in 2024 is significantly higher than the previous five years (2019-2023) which ranges from $28m to $35.6m and averages $31.8m. Its 2024 actual ($40.3m) is 27% (in real term) higher than this average and the adjusted base year value of $45.0m is 42% higher than this average, for reasons which we explain and consider in our assessment.

Table 7.3: Comparison between DBP average five-years with DBP proposed adjusted base year 2024 - $m, real Dec 2024

Category	Average (2019-2023)	2024 Actual	DBP Revised Adjusted Base Year 2024
Wages & Salaries			
Salaries	31.8	40.3	45.0
Salaries - Contractors	1.8	1.0	1.0
Subtotal	33.5	41.3	46.0
Non-field expenses			
Employee Expenses	0.4	1.3	1.3
Advertising	0.0	0.2	0.2
Consulting	4.3	4.4	4.2
Entertainment	0.4	0.3	0.3
IT	6.3	5.5	5.5
Insurance	3.7	3.4	3.7
Office & Admin	1.1	0.9	0.9
OHS	0.4	0.3	0.3
Subtotal	16.6	16.2	16.3
Field expenses			
Motor Vehicle	1.4	1.9	1.9
Repairs & Maintenance	6.6	8.1	8.1
Training & Development	1.3	1.5	1.5
Travel & Accommodation	1.9	2.5	2.5
Subtotal	11.2	14.0	14.0
Government Charges			
Utilities Rates & Taxes	6.2	4.7	4.9
Permits, Licence Fees, Rates & Taxes	2.4	5.8	5.8
Subtotal	8.6	10.5	10.7
Reactive Maintenance	2.2	1.0	1.0
TOTAL	**72.2**	**83.0**	**88.0**

Source: EMCa table derived from DBP's opex model, Att. 8-1A and EMCa Information Request (EMCa01)

341. Table 7.3 above also shows that DBP's revised total proposed adjusted base year is $15.8m higher than its five-year average and $5m higher than its 2024 actual opex. We, therefore, considered further the variance for each category, noting that DBP's proposed adjusted base year opex includes additional amounts for three subcategories as mentioned in subsection 7.3.2.

7.3.4 Wages & salaries

What DBP has proposed in its Revised Proposal

342. In its Initial Proposal, DBP proposed $44.6m (including adjustments) for total wages & salaries base year, comprising $43m for salaries. In its Draft Decision ERA rejected this and approved $32.8m, comprising $31.8m for salaries.

343. In its Revised Proposal, DBP proposes $45.0m (comprising DBP's 2024 actual of $40.3m plus its proposed base year adjustment of $4.7m) for salaries and has accepted ERA's Draft Decision for a $1.0m allowance for contractors making a total of $46.0m for this category. This is $1.4m and $13.2m more than DBP's Initial Proposal and ERA's Draft Decision respectively as shown in Table 7.4.

344. For the 'salaries' component, DBP explains that its Revised Proposal comprises its initially proposed amount of $43.0m plus $2.0m for *'…flowing predominately from head count increases….'*.[68]

Table 7.4: Comparison between DBP Initial and Revised Proposals with ERA DD - $m, real Dec 2024

Wages & Salary	DBP Initial Proposal	ERA DD	DBP 2024 actual	Proposed adjustments	DBP Revised Proposal
Salaries	43.0	31.8	40.3	4.7	45.0
Contractors	1.6	1.0	1.0		1.0
Total	**44.6**	**32.8**	**41.3**	**4.7**	**46.0**

Source: EMCa table, derived from ERA Draft Decision att. 5, Table 5.8 and DBP Opex model Att. 8-1A

Basis of ERA Draft Decision in rejecting part of DBP's Initial Proposed Wages & Salary

345. In our review of DBP's Initial Proposal, we found that DBP's significant 2024 increase in wages and salaries charged to DBNGP could be explained almost entirely from the impact of DBP reducing its labour cost charge-out rate from 104% prior to year 2024 to 75% (including reducing salary on-cost from 50% to 35%[69]). The result of this reduction that DBP applied to its labour charged out (for example, to other AGIG entities) was to retain a much greater proportion of labour costs and attribute this to DBNGP. Based on DBP information, the charge-out rate reduction resulted in an increase in salary attributed to DBNGP of $7.7m in 2024[70]. Therefore, absent the accounting change, DBP's information shows that the actual salaries opex of $40.3m would have been $7.7m less, that is $32.6m.

346. DBP's expenditures for salaries for five-years prior (2019-2023) before the change of charge-out rate were between $28m to $35.6m with an average of $31.8m per year. The DBP information therefore shows that, absent the charge-out rate reduction, its 2024 salary amount of $32.6m was similar to its five-year average (in real terms) and aligned with DBP's information attributing the significant increase to $40.4m in 2024 to DBP's accounting change.

Table 7.5: DBP wages & salaries - $m, real Dec 2024

Wages & Salaries	2019	2020	2021	2022	2023	2024	Average (2019-2023)
Salaries	30.9	34.1	35.6	28.0	30.2	40.3	31.8
Contractors	2.5	1.7	1.6	1.5	1.5	1.0	1.8
Subtotal	**33.4**	**35.8**	**37.2**	**29.5**	**31.7**	**41.3**	**33.5**

Source: EMCa table derived from EMCa Information Request (EMCa01)

347. Through an information request (EMCa18) in our review of DBP Initial Proposal, DBP provided gross salaries before and after charging out to capex and to other AGIG entities, as shown in Table 7.6. It is evident from this that charging to capex is reduced in 2024 due to the reduction in charge out, but it is also evident that DBP's charging to other AGIG entities and to DBP's unregulated services is also lower than it would otherwise have been if

68 DBP response to Draft Decision on Operating Expenditure (Attachment 8.6), page 9

69 BDO Report, Att. 8.3 pg.4

70 DPB Response to ERA Draft Decision – Attachment 8.6, Operating expenditure PUBLIC, page 8.

not for the impact of the $7.7m reduction. Further, as shown in the table, we note that the lower charge largely benefits other AGIG entities and the uncovered pipeline, while the impact on DBNGP's 2024 capex is considerably less.

Table 7.6: DBP gross salaries and allocation - $m, real Dec 2024[71]

Employee Expense	2021	2022	2023	2024
Employee expenses (Salaries, STIP, Super, Contractors, etc)	51.0	51.5	59.3	66.2
Provision	5.6	-	-	-
Subtotal - Gross Employee expenses	**56.6**	**51.5**	**59.3**	**66.2**
Allocated to DBP SIB Capex	(5.8)	(7.4)	(8.2)	(6.9)
Allocated to other AGIG entities & uncovered pipeline	(17.9)	(16.2)	(19.6)	(16.2)
Subtotal - Employee expenses Netted Off	**(23.7)**	**(23.5)**	**(27.8)**	**(23.1)**
Net of 2021 provision	(5.6)			
Net Employee Expenses (DBNGP)	**27.3**	**27.9**	**31.5**	**43.1**

Source: DBP response to EMCa18 (Q39).

Further information on DBP's 2024 change to its charge out rate and its implication for 2024 base year salaries opex

348. To support its revised proposed wages & salaries, DBP has provided further information which it lays out in its response documents in Attachment 8.7 – Salary Expenses. DBP states that

> *"the decision to revise labour capitalisation rates downward was done in response to an assessment of the reasonability of labour capitalisation rates (initially set in 2016 and escalated by CPI since then). The exercise found that 2023 rates were higher than market related rates for similar services".*

349. However, the benchmarking that DBP has provided and which we show in the Table 7.7 below, found otherwise. The table shows that salary on-costs used by AER/Marsden Jacob are between 43% to 52%, compared with DBP's submission following its accounting change, which is only 35%. In fact, DBP's rate prior to 2024 (50%), in other words before its charge-out rate change, was within AER/Marsden Jacob's lower and upper bound.[72]

350. For non-salary on-cost (overhead), AER applies a flat rate of 61% which is much higher than DBP's submission of overheads (40%). Again, DBP's rate prior to 2024 (54%) is much closer to AER's overhead rate than the 40% rate that it has adopted for 2024.

351. DBP claims that Marsden Jacob's overhead rate of 61% '*suffers from compounding errors*'[73]. While Marsden Jacob refers to compounding in deriving its salary on-cost range, we see no evidence in its report of a compounding error in determining its estimated allowance for overheads (i.e. 61%). We also see evidence in its report that could have supported a higher value for this component.

352. Further, in deriving what is in effect a 'fully loaded rate' for reference purposes in considering DBP's proposed reduction, as we show in Table 7.7, we have done so by adding the factors rather than using the geometric formula that DBP assumes in describing the claimed 'error'.

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71 We note that the net costs shown here do not exactly reconcile with the historical information that DBP provided as shown in Table 7.3; however, we have considered it reasonable for directional understanding of its salary cost allocation process and outcomes.

72 In its Attachment 8.7, DBP also provides salary benchmarking information. However our concern here is not with salary levels themselves, but rather with the accounting change that DBP has applied in determining on-costs.

73 DBP response to Draft Decision, Attachment 8.7, page 7

353. We also considered whether the compounding that Marsden Jacob has applied in deriving its salary on cost range might have led us to a different conclusion, by recalculating the salary oncost range directly from Marsden Jacob's information with an arithmetic sum.[74] We found however that a recalculation on this basis would still support a rate for the sum of oncosts and overheads that brackets DBP's rate prior to 2024 and would not support the reduced rate of 75% that DBP has adopted in the year 2024.

Table 7.7: Salary on-cost and overheads comparison between DBP submission and others.

	DBP prior 2024	DBP submission [75]	WA	AER/Marsden Jacob Report - lower	AER/Marsden Jacob Report - higher
Salary on-cost	50%	35%	38.97%[76]	43%[77]	52%[78]
Overheads	54%	40%		61%[79]	61%[80]
Total	**104%**	**75%**		**104%**	**113%**

Source: EMCa table derived from DBP's Att. 8.7, Table 1.2 and BDO Report Att. 8.3

354. With the evidence DBP has provided, we consider that the reduction in its charge out rate from 104% to 75% which resulted in a $7.7m increase in 2024 for the salaries residual that DBP attributes to DBNGP, is not reasonable for the purpose of determining a regulatory base year amount for DBNGP customers.

DBP initially proposed a salaries base year adjustment of $3.0m

355. As we show in Table 7.4, DBP initially proposed an adjusted base year value of $43.0m for salaries. This was built up from its initial estimated actual cost of $40.0m plus a $3.0m proposed 'base year adjustment'.

356. DBP provided only a qualitative explanation of its proposed $3.0m base year adjustment. In its Initial Proposal. DBP described this as accounting for an increase in Superannuation Guarantee contribution, a field staff remuneration increase in H2 2024 extrapolated to full year and filling of vacancies.[81] DBP's Initial Proposal refers to an explanation of this $3.0m amount being provided on its following page; however the material that it refers to contains six bullet points which, neither separately nor in combination, provide a breakdown that would reconcile to and therefore potentially explain how it determined its proposed $3.0m adjustment.

Information in DBP's Revised Proposal on its revised salaries adjustment of $4.7m

357. In its Revised Proposal, DBP proposes an adjusted base year salaries amount of $45.0m, which it describes as the '*…base year opex [of] $43.0 million proposed in [its] Final Plan + $2.0 million reflecting annualised increases flowing predominately from head count increases…*'[82].

74 Review of Alternative Control Services, Advice to AER, Marsden Jacob (September 2018), Table 3. (DBP sought to present this information in Table 1.2 of its attachment 8.7, however there is a transcription error in DBP's table which therefore does not align with Marsden Jacob's original derivation).)

75 DBP Response to Draft Decision, Att. 8.7 Salary expenses page 8.

76 DBP Response to Draft Decision, Attachment 8.7, table 1.2, page 7.

77 As per above

78 As per above

79 DBP Response to Draft Decision, Attachment 8.7, page 7.

80 As per above

81 DBP's Initial Proposal, page 74

82 DBP Attachment 8.6 Response to Draft Decision on Operating Expenditure, page 9

358. DBP provides additional information in a further more detailed attachment on salaries.[83] While this document contains some quantified information on salary increases, it does not provide information that could be used to reconcile to and therefore provide a potential explanation for its now-proposed base year adjustment of $4.7m, Further, where quantified information is provided, DBP's explanations are ambiguous as to whether or when increases had occurred, or were planned to occur. Therefore, it is unclear from this information what purports to explain increased costs already inherent in its 2024 base year or what may have been seeking to justify an additional amount.

359. For example, in section 1.6 of Attachment 8.7 DBP describes FTE needs, but its table shows that a headcount increase of 81 had already occurred from 2020 to 2024, and that it would decrease by two in 2025. This information therefore provides no assistance with understanding the claim made in its Revised Proposal, of needing a further $2.0m for additional headcount beyond the base year amount,

360. The question of an adjustment for future headcount increases is further confused given DBP's statement in its Initial Proposal that its initially-proposed $3.0m base year adjustment was (at least in part) to allow for additional headcount and information that DBP provided at our onsite session that it had allowed $2.2m for this within its then-proposed $3.0m adjustment[84] However in its Revised Proposal DBP proposed an additional $2.0m over and above the amount that it had stated was already included in its initial adjustment, but gave the same reason. As we discuss below, when DBP later provided information on this component of its revised adjustment, it was less than either of these amounts.

Assessment of further information DBP provided in November 2025 on its revised salaries adjustment of $4.7m

361. In November 2025, DBP provided ERA a new document on wages and salaries. For the first time, this document contained a listing of the components of its proposed $4.7m salaries base year adjustment, and which we reproduce in the left-hand column in Table 7.8.[85] With this information, we were able to identify components which for the most part had been discussed in DBP's previously-supplied documents, but which had been supplied without context as to which (and if so, how much) comprised DBP's proposed base year adjustment.

362. For the four remuneration/EBA amounts, we were able to utilise the combination of information in DBP's November advice and in its August advice (Attachment 8.7). Matching up components between these two documents, provides what we consider to be a reasonable explanation that each of these increases had either occurred (at least in part) in 2024 or was committed to be effective from some time in 2025. Whereas DBP's Attachment 8.7 referred to a cost of $1.6m for its Operations Field Staff remuneration increase, DBP's November document clarified that this was the full year effect and that half of this was already included in its 2024 actual opex, hence the proposed adjustment of $0.8m to account for the full year in BST forecasts.[86]

363. We consider that each of these four increases comprises a reasonable adjustment because they have already occurred but were not accounted for (or not fully) in DBP's 2024 base year opex. Because these specific adjustments account for real salary increases from 2024 and can reasonably be assumed to apply for the remainder of AA5, it is necessary to offset these increases by not also allowing for real salary cost trend increases over the remaining two years of the current period. We have taken this offset into account by calculating the amount by which the base year opex is being escalated in real terms over two years in the 'trend' component of the BST forecast and deducting this amount ($0.48m) from the base year adjustment. In effect this therefore neutralises the effect of real cost escalation through

83 DBP Attachment 8.7, Additional Information on Forecast Salary Expenses (August 2025). (Headers in this document are incorrectly labelled as Attachment 8.3)

84 DBP presentation to ERA and EMCa, 18 March 2025, page 13

85 DBP presents this information as dot points on page 6 of its document

86 DBP had in earlier documents referred to part of its overall adjustment being the full year extrapolation of a part year cost, but it was unclear which component this related to and what the included amount was

to the beginning of the AA6 regulatory period, while still allowing for further real cost escalation over the period itself.

364. As a statutory increase that occurs after 2024, we consider that DBP's proposed adjustment for the superannuation guarantee rate is reasonable.

365. We consider that DBP has not justified the additional $1.7m that it advises in its November 2025 advice for 'head count increase'. As we have stated above, DBP had variously described this as $2.0m and $2.2m in previous information, but this new information clarifies the amount in the context of the proposed $4.7m adjustment.

366. As we stated in our Initial Report, we do not consider the existence of a percentage of vacancies at a given time, to be evidence of the need for an adjustment. We further noted there that DBP's increase in staff numbers appeared to largely correlate with an increase in the utilisation of those staff to provide services other than to DBNGP. While DBNGP refers in various parts of its submission to increasing repair and maintenance required for the ageing DBNGP asset, the information in its Revised Proposal shows that it had already added 81 FTEs over the period 2020 to 2024 and gives no credible information that would justify its proposed allowance for a further increase.

367. From this, we conclude that DBP's proposed base year adjustment of $4.7m for salaries and wages is not reasonable and overstates a reasonable estimate of its future requirement. In Table 7.8 we summarise our finding that an alternative base year adjustment of $2.50m for the salaries line item, is justified.

Table 7.8: DBP revised proposed and EMCa alternative base year adjustments - $m, real Dec 2024

Adjustment components	DBP	EMCa
Operations field staff remuneration	0.80	0.80
Operations field staff remuneration changes to classification	0.30	0.30
[redacted]	0.90	0.90
[redacted]	0.80	0.80
Head count increase	1.70	
Subtotal	**4.50**	**2.80**
Increase Super compulsory 0.5%	0.18	0.18
Total adjustments	**4.68**	**2.98**
Less real labour cost escalation offset (2024 to 2026)		*-0.48*
Net total adjustments		**2.50**

Source: EMCa table derived from DBP information provided on Wages and salaries opex, Nov 2025

Salaries and wages – contractors

368. Based on DBP's Revised Opex model, DBP accepts ERA's Draft Decision on contractors which is to use 2024 actual opex.

EMCa adjusted opex for Wages & salaries

369. We consider that:

- A reasonable efficient base for salaries is the amount before DBP changed its charge-out rate, meaning reducing its 2024 actual by $7.7m to account for the impact of reducing its on-cost rate from 104% to 75%.
- DBP's proposed base year adjustment of +$4.7m is not reasonable, but a reasonable alternative adjustment would be $2.5m.

370. After taking account of an allowance for contractors (for which DBP has accepted ERA's Draft Decision) this results in an adjusted base year allowance of $36.08m, which is $2.6m more than DBP's average historical expenditure. We consider that this provides recognition

to a level that DBP has justified, for its increased salary and wages base opex. We show these calculations for an alternative amount, in Table 7.9.

Table 7.9: EMCa proposed alternative base year 2024 for wages & salaries - $m, real Dec 2024

	2024 adjusted base year	Average (2019-2023)
Salaries (actual)	40.29	
Less charge-out rate adjustment	-7.70	
Plus base year adjustment	2.50	
Salaries	**35.09**	**31.7**
Contractor	0.99	1.8
Total	**36.08**	**33.5**

Source: EMCa table

Related considerations

Potential addition to proposed AA6 capex allowance

371. In its response to ERA's Draft Decision, DBP has claimed that the reduction to its charge out rate has reduced its proposed AA6 capex forecast by $10m in total over AA6; that is, an average of $2m per year.[87]

372. In its capex business cases, DBP provides some information on the methods by which it has costed its proposed AA6 capex and which vary between projects and asset categories, as we would expect. We do not see evidence that its 2024 capex was the sole reference point that it has used, nor do we see evidence that it reduced its capex forecast to account for a lower assumed internal charge out rate. In its overall capex forecast of $262m (refer Table 3.1) it would be challenging for DBP to demonstrate where or how this had been reduced due to assumed lower charge out rates in AA6 than in prior years, and we do not see evidence that DBP done so.

373. For these reasons, we do not consider that there is a justification to 'add back' a capex allowance relative to DBP's proposed $292m AA6 capex program.

Interaction with e-factor

374. In its response to ERA's Draft Decision, DBP has proposed applying a higher negative E factor over AA6 which it proposes as offsetting the impact of the increase in base year wages and salaries opex charged to DBNGP that is driven by DBP's assessment of a reduced charge-out rate.[88] As a regulatory matter, it is not within our scope to consider DBP's proposed application of this mechanism for this purpose.

7.3.5 Non-field expenses

375. In its Initial Proposal, DBP has proposed a total of $18.4m for non-field expenses for its base year value. In its Draft Decision, ERA reduced $2.3m from DBP's Initial Proposal, rejecting the proposed amounts for IT and insurance while accepting the rest of non-field expense categories. This resulted in an ERA Draft Decision value of $15.5m.

376. DBP accepted ERA's Draft Decision. However, DBP has updated its non-field expenses resulting in an increase of $0.7m as shown as shown in the Table 7.10 below.

87 DBP response to Draft Decision, Attachment 8.7, page 4

88 DBP offers this in its response to the Draft Decision, Attachment 8.7. On page 2 DBP refers to this as 'around $20 million', and on page 5 this is referred to as 'around $22m'

Table 7.10: *DBP proposed base year 2024 for non-field opex - $m, real Dec 2024*

Non-field expenses	DBP Initial	ERA Draft	DBP Revised	ERA Draft vs DBP Revised
Employee Expenses	1.0	1.0	1.3	0.3
Advertising	0.1	0.1	0.2	0.1
Consulting	3.9	3.9	4.2	0.3
Entertainment	0.3	0.3	0.3	0.0
IT	7.6	5.5	5.5	0.0
Insurance	4.4	3.7	3.7	0.0
Office & Admin	0.8	0.8	0.9	0.1
OHS	0.3	0.3	0.3	0.0
Total	**18.4**	**15.5**	**16.3**	**0.7**

Source: EMCa table derived from DBP opex model – Att. 8-1, Att. 8-1A and ERA Draft Decision Att. 5

377. The increase is mainly attributed to the use of full year 2024 instead of mixed actual and forecast that DBP used in its Initial Proposal. The increase of $0.46m is for employee expenses, advertising and office & administrative expenses.

378. For the consulting category, DBP's actual opex has increased by $0.3m compared with the ERA Draft decision because DBP has updated 2024 actuals for the category. This has an impact to the overall five years average, which the forecast was based on, and ERA has accepted this method.

379. We consider that DBP Revised Proposal for non-field expenses are reasonable.

7.3.6 Field expenses

380. DBP's line item for Field Expenses comprises expenses for materials and services supporting its field activities but does not include wages and salaries for the field activities themselves.[89] In its Initial Proposal, DBP estimated expenditure of $13.4m for field opex in 2024, which ERA accepted as a valid base value for this line item in considering DBP's BST opex forecast. In its Revised Proposal, DBP now proposes $14.0m as a base value, after updating its field expenses using full year actual 2024 figures.

381. A comparison between DBP's Initial Proposal, ERA's Draft Decision and DBP's Revised Proposal for field expenses is shown in Table 7.11 below.

Table 7.11: Comparison between DBP Initial, Revised proposals and ERA Draft Decision - $m, real Dec 2024

Field expenses	DBP proposed	ERA DD	DBP Revised	ERA DD vs DBP Revised
Motor Vehicle	1.59	1.59	1.86	0.27
Repairs & Maintenance	7.82	7.82	8.14	0.32
Training & Development	1.57	1.57	1.54	-0.03
Travel & Accommodation	2.43	2.43	2.50	0.07
Total	**13.42**	**13.42**	**14.04**	**0.62**

Source: EMCa table derived from DBP opex model – Att. 8-1, Att. 8-1A and ERA Draft Decision Att. 5

382. In Table 7.12 we show DBP's expenditure over the 5 years to 2023. DBP's 2024 expenditure is $2.8m higher than the average of the five years prior, particularly for repair & maintenance expenditure which is $1.5m higher than prior average. Travel and

89 DBP provided clarity on this matter in advice to ERA in November 2025

accommodation expenditure is also higher in 2024 than any year since 2019, and $0.5m more than in 2023.

Table 7.12: DBP Revised Field Expenses compared with DBP historical - $m, real Dec 2024

Field expenses	2019	2020	2021	2022	2023	2024 Base Year
Motor Vehicle	1.3	1.3	1.4	1.4	1.5	1.9
Repairs & Maintenance	7.1	6.6	6.4	6.8	6.3	8.1
Training & Development	1.6	1.4	1.0	1.3	1.2	1.5
Travel & Accommodation	2.6	2.0	1.4	1.5	2.0	2.5
Total	**12.6**	**11.3**	**10.2**	**11.0**	**11.0**	**14.0**

Source: EMCa table derived from DBP's opex model, Att. 8-1A and EMCa Information Request (EMCa01)

383. In our Initial Report, we recommended accepting DBP's then-proposed base value of $13.4m on the grounds that the increase relative to DBP's historical expenditure was '*reasonably explainable by a combination of suppressed activity due to covid impacts and some recent increase in subsequent real costs.*'[90] DBP provided supporting information for the higher cost that it incurred in 2024, noting as examples:

- An increase of 30% in vendor prices for planned maintenance materials
- 7% higher aerial surveillance costs
- Higher costs for a range of other services, including travel and accommodation, for pipeline logistics and freight.[91]

384. We consider it reasonable to accept that DBP's 2024 costs are representative of ongoing cost levels, and not a temporary aberration that would warrant adjustment. While DBP's 2024 actual costs are higher than it estimated in its Initial Proposal, we consider that information it has provided supports the same reasoning for accepting its updated 2024 cost as a reasonable base amount.

7.3.7 Government Charges

385. DBP accepted part of the ERA's Draft Decision that the base year adjustment requested was too high. However, DBP considers that it needs part of the adjustment of $0.24m to its revised base year to address higher recurrent costs for rent and power post 2024, which have been market-driven as shown in Table 7.13

Table 7.13: DBP proposed government charges base year 2024 - $m, real Dec 2024

Government charges	DBP Initial	ERA DD	DBP Revised	ERA vs DBP Revised
Utilities Rates & Taxes	5.8	4.7	4.9	0.2
Permits, Licence Fees, Rates & Taxes	5.8	5.8	5.8	0.0
Total	**11.6**	**10.5**	**10.7**	**0.2**

Source: EMCa table derived from DBP's opex model, Att. 8-1 and EMCa Information Request (EMCa01)

386. We consider that DBP's Revised Proposal for the government charge opex category is a reasonable base year value. However, while not entirely consistent with its labelling of this category, DBP information shows that this category includes its office rental costs, which we

[90] EMCa Initial Report to ERA, June 2025

[91] DBP presentation to ERA and EMCa, 18 March 2025, page 10

understand to be primarily [redacted].[92]

387. Based on DBP's revised information which we have discussed in capex subsection 5.2.6 (paragraph 292) there will be a saving of $1.8m/year from rental from August 2027 onward as a result of DBP moving around 130 staff, and [redacted] to its redeveloped Jandakot facility. Therefore, we are incorporating this saving as negative step change in our opex summary. Detail of our adjusted Government charges are shown in the Table 7.14 below.

Table 7.14: EMCa adjusted for DBP Government Charges opex category - $m, real Dec 2024

Government Charges	Base Year	2026	2027	2028	2029	2030	Total
Utilities Rates & Taxes	4.9	4.9	4.9	4.9	4.9	4.9	**24.6**
Saving from CBD rental			*-0.8*	*-1.8*	*-1.8*	*-1.8*	***-6.2***
subtotal		**4.9**	**4.2**	**3.1**	**3.1**	**3.1**	**18.5**
Permits, Licence Fees, Rates & Taxes	5.8	5.8	5.8	5.8	5.8	5.8	**28.9**
Total adjusted Government charges		**10.7**	**10.0**	**8.9**	**8.9**	**8.9**	**47.4**

Source: EMCa table

7.3.8 Reactive Opex

388. DBP accepts ERA's Draft Decision to reduce its initial proposed amount for reactive maintenance base year from $1.3m to $1.0m, in line with DBP's actual 2024 opex.

7.4 Assessment of Bottom-up opex

7.4.1 GEA and Turbine Overhauls

389. In its Draft Decision ERA approved a total of $29.5m, including accepted all $3.5m of the GEA overhaul component that DBP had proposed in its Initial Proposal.

390. However, ERA rejected $3.3m by removing DBP's forecast of [redacted] assumed premature failure for turbine overhaul while accepting other components, namely turbine exchange and varnish removal unit, totalling $22.8m as we summarised in Table 7.15.

Table 7.15: Summary of DBP Initial Proposal, ERA Draft Decision and DBP Revised Proposal - $m, real Dec 2024

Category	DBP Initial	ERA DD	DBP Revised
ERA accepted all			
GEA overhaul	3.5	3.5	3.5
Turbine exchange	22.0	22.0	22.0
Varnish removal unit	0.8	0.8	0.8
subtotal	**26.3**	**26.3**	**26.3**
ERA partially accepted (approved [redacted] failure)			
Turbine overhaul premature failure	6.5	3.3	6.5
Total	**32.8**	**29.5**	**32.8**

Source: EMCa table

[92] Attachment 9.12 - Jandakot facility redevelopment, p.9.

391. We assess further information that DBP has provided on turbine overhaul for premature failure, which ERA partially accepted but which DBP seeks to reinstate in its Revised Proposal, in the subsection below.

Assessment of Turbine overhaul premature failure

392. In our review of DBP's Initial Proposal, we identified several factors which we considered would be expected to result in the premature failure trend reducing due to reduced stress being placed on the compressor units, including:

- DBP's comprehensive overhaul program;
- Lower forecast throughput; and
- Forecast increasing Perth Basin production.

393. In its response to ERA Draft Decision, DBP has provided further justification for allowing [redacted] premature failures of turbine overhauls. DBP states that[93]

> *"Premature failures recorded on the DBNGP are in most cases related to OEM overhaul standards. In AA6, there is likely to be more stress on the units with frequent starts and peaking load top ups due to low flows (throughput) and not less stress. The advent of Midwest (Perth Basin) production and its unreliability in the early stages will see more "stop starts" of the compressors midway along the pipeline to maintain T1 full haul certainty. When there is no flow, there must be immediate change to full haul flow from the Pilbara to replace the swapped gas.*
>
> *History regarding the overhauls program for the DBNGP has demonstrated that DBP is usually accurate in forecasts of overall overhaul needs. In AA5, we had proposed that there be an allowance for eight overhauls (including failures), and this is how many have eventuated to date. The approved allowance was $4.8 million (in December 2024 dollars) less than our needs for AA5 as the ERA considered that there should be more savings even though our program of overhauls has already been optimised. In general, we cannot compromise the safety and reliability of the DBNGP by not attending to overhauls when required."*

394. The more detailed explanation that DBP has now provided enables an adequately informed assessment. While there is no statistically valid means to prefer a particular integer forecast with such low expected values (i.e. assumed to be either one or two failures), on balance we consider that the information that DBP now provides supports its proposed allowance of [redacted] premature failures as a reasonable forecast.

7.4.2 Inspections & Other Asset Management

What DBP has proposed

395. ERA accepted $24.3m of DBP's Initial Proposal for inspection and other asset management expenditure categories but accepted $5.7m of the $8.7m that DBP proposed for station inspections. As shown in Table 7.16 below, DBP has reproposed its initially proposed amount.

93 DBP response to ERA Draft – Attachment 8.6, section 1.6.2

Table 7.16: Summary of DBP Initial Proposal, ERA Draft Decision and DBP Revised Proposal - $m, real Dec 2024

Inspection & other asset management	DBP Initial	ERA DD	DBP Revised
ERA accepted all			
HSE	1.0	1.0	1.0
Asset management	5.6	5.6	5.6
Pipeline MLV Inspection	17.0	17.0	17.0
Decommissioning	0.6	0.6	0.6
subtotal	**24.3**	**24.3**	**24.3**
ERA partially accepted			
Station inspection	8.7	5.8	8.7
Total	**33.0**	**30.0**	**33.0**

Source: EMCa table

Assessment of DBP Revised amount for Station Inspection

What DBP proposes

396. Of the $8.7m total for Station inspections, $3.9m was for compressors and contamination, which ERA approved. ERA approved $3.9m for compressor and contamination sites. The remaining $4.8m of DBP's proposal was for meter station inspections, for which ERA approved $1.9m on the basis that it reflected a pro-rata portion of Existing Stations. Therefore, in aggregate ERA approved $5.8m for this category.

397. In its Revised Proposal, DBP has reproposed its initial amount of $8.7m.

Assessment of DBP's response

398. In response to ERA's Draft Decision, DBP asserts[94] that "inspections" are distinct from maintenance activities because they are safety related and required for compliance with standards and regulations. DBP asserts that compliance with standards and regulations is an essential element of "Good Gas Industry Practice" which is the standard to which the Operator is held under gas transportation agreements on the DBNGP. Accordingly, DBP considers that inspections should be considered to be a routine part of the operations and maintenance activities on the DBNGP and all pipelines, with costs allocated in the same way as other operations and maintenance costs.

399. In our review of DBP's Initial Proposal, DBP did not provided a list of sites at which works were proposed during AA6 including in its response to our information request (EMCa18 Q41). Therefore, we considered that a reasonable alternative allowance was for inspections at meter station to be reduced pro-rata to the proportion of Existing Stations, i.e. for the allowance for meter stations to be reduced to 39% of the proposed allowance.

400. In 2.3.3 and section 3.4.2 we reiterate the contractual basis that requires that costs related to meter stations are the responsibility of shippers at those stations, except for 'Existing Stations'. Regardless of the responsibility for undertaking inspections, we maintain our position that it is consistent with this requirement that such expenditure should be charged to the relevant shippers and therefore not included in determining regulated charges.

401. There are 26 Existing Stations[95] out of a total of 67 inlet and outlet stations on the DBNGP for which the operations and maintenance costs cannot be recovered from shippers under clauses 6.11 and 6.12 of the Reference Service Terms and Conditions T1, P1 and B1. Consistent with our initial advice, we consider that a reasonable forecast should not allow for inspection expenditure other than for Existing Stations.

[94] DBP response to ERA Draft – Attachment 8.6, section 1.6.3

[95] Attachment to response to EMCa08 Metering and www.agig.com.au/customeraccess/DBNGP Pipeline Description

402. On this basis, we maintain our position that ERA's Draft Decision reflects an appropriate amount.

7.5 Assessment of proposed step changes

7.5.1 What DBP has proposed

403. DBP initially proposed a total of $17.3m for opex step changes. In its Draft Decision ERA approved $6.7m. ERA approved all amounts for cybersecurity initiatives but approved less than DBP had proposed for insurance premium and for IT sustaining applications step changes, and rejected all proposed step increases for IT sustaining infrastructure.

404. We summarise DBP's Initial Proposal, ERA's Draft Decision and DBP's Revised Proposal for step changes in Table 7.17.

Table 7.17: Summary of DBP Initial & Revised Proposals and ERA Draft Decision -- $m, real Dec 2024

Step change	DBP Initial	ERA DD	DBP Revised
ERA accepted all			
Cybersecurity initiatives	2.3	2.3	2.3
ERA partially accepted			
Insurance premium costs	4.9	3.7	5.9
IT sustaining applications	8.3	0.8	5.3
ERA rejected all			
IT sustaining infrastructure	1.8	0.0	1.8
Total	**17.3**	**6.7**	**15.3**

Source: EMCa table

405. We assess DBP's new information on step changes that differ from ERA's Draft Decision in the subsection below.

7.5.2 Insurance premium revised opex step change

A step change for insurance costs is warranted, but DBP's proposal would result in an allowance that exceeds the forecast by its insurance adviser

406. DBP initially proposed total $27.1m for insurance which consisted of $22.2m arising from extrapolation of DBP adjusted base year[96] plus a $4.9m step change. However, ERA approved a total of $22.4m, which comprised base year actual of $3.7m (resulting in $18.7m over five years) plus step changes aggregating to $3.7m.

407. In its Revised Proposal, DBP has accepted ERA's use of its actual base year expenditure of $3.7m (i.e. without adjustment), and which therefore provides for base expenditure of $18.7m over the five-year period. DBP now proposes an insurance step change of $5.9m.

Assessment of DBP's response

408. In its Initial proposal, DBP provided a report from [redacted] for its AA6 insurance premium. [redacted] initially forecast that a total of $22.4m will be required for AA6 and ERA's Draft Decision was based on this amount.

409. In its response to ERA Draft Decision, DBP stated that

[96] DBP reported actual 2024 expenditure of $3.7m and proposed a base year adjustment of $0.7m, resulting in a proposed adjusted base year amount of $4.4m.

Our insurer has subsequently provided further market-based advice (Confidential Attachment 8.4A) about the product premiums and fees that we will incur in AA6 (consistent with the products and fee items we incur now) that were not originally included in the report we submitted with our Final Plan (Confidential Attachment 8.4). These sum to a total of $2.3 million over AA6, or an average of $0.5 million per annum.

410. On review, we find that DBP's updated report contains four line-items that it did not previously include. We have listed these items and the respective premium amounts in Table 7.18, which we have collated from multiple tables of information in DBP's updated information.

411. Consistent with DBP's updated information, these sum to $2.3m in real terms and, based on this information, we consider that these are valid items. Taken together with the $3.7m aggregate step change that ERA approved, this supports the $5.9m step change that DBP has now proposed.[97] On this basis, we consider that DBP's revised step change for insurance costs, is reasonable.

Table 7.18: Additional insurance items not included in DBP's Initial Proposal - $m, real Dec 2024

	2026	2027	2028	2029	2030	Total
Marine Cargo	0.0	0.0	0.0	0.0	0.0	**0.1**
Drone Hull & Liability	0.0	0.0	0.0	0.0	0.0	**0.01**
Group Salary Continuance	0.3	0.3	0.3	0.3	0.3	**1.6**
Broker service fee	0.1	0.1	0.1	0.1	0.1	**0.6**
Total	**0.4**	**0.4**	**0.5**	**0.5**	**0.5**	**2.3**

Source: EMCa table derived from several tables in DBP Attachment 8.4A

412. Based on the updated report above, the Revised insurance premium step proposed by DBP of $5.9m in AA6, which is $2.2m more than ERA's Draft Decision, is reasonable, when taken in conjunction with DBP's acceptance of the base year expenditure of $3.7m.

413. We summarise DBP's Revised insurance premium calculation, including the amount already in the base year, in Table 7.19.

Table 7.19: DBP Revised insurance premium - $m, real Dec 2024

	2026	2027	2028	2029	2030	Total
Already in Base Year	3.7	3.7	3.7	3.7	3.7	**18.7**
Allowed step changes	0.5	0.6	1.1	1.6	2.2	**5.9**
Total allowed insurance	**4.2**	**4.3**	**4.8**	**5.3**	**5.9**	**24.6**

Source: EMCa table derive from DBP Revised Opex Model – Att. 8.1A

7.5.3 IT sustaining applications step change

Background and ERA Draft Decision

414. In its Draft Decision, ERA determined that DBP could reasonably be expected to have realisable business opex savings from the significant IT investments it had made in AA5 and was continuing to make and that these would largely offset any increases in IT operating costs. Accordingly, ERA approved $0.8m of the $8.3m that DBP proposed in its Initial Proposal for IT sustaining applications step change.

[97] Some minor differences at one decimal result from rounding

Assessment of DBP's Revised Proposal

415. In its Revised Proposal, DBP has now taken account of operational opex savings of $0.6m per year that it estimates it will achieve from enhancements to its SAP S/4HANA implementation. From this, it has reduced its proposed opex step change by $3.0m, to now propose a requirement for $5.3m. DBP states that these savings are '*contingent on the approval of $3.0m capex in AA6 to deliver SAP S/4 incremental functionality.*'[98] In section 4.2.4, we now recommend accepting this proposed enhancement capex.

416. We consider, however, that DBP has been selective in identifying only savings from SAP S/4HANA. In Table 4.1 we show significant other application enhancement expenditure that DBP proposes and which, similarly, based on new information that DBP provides, we consider is likely to be justified. While DBP has not provided quantified business cases for these enhancements, we consider it reasonable to assume that such enhancements will result in realisable business opex savings, which DBP has not taken into account in proposing IT opex step changes.

417. To account for these, and for our proposed inclusion of the relevant enhancement capex, we consider that a reasonable proxy is to assume that such savings will be at least equal to the proposed investment, noting that this is consistent with the savings that DBP has calculated for SAP S/4HANA. We show our calculation of these amounts in Table 7.20

418. We also observe that the opex step changes that DBP proposes commence in 2026, suggesting that they flow from investments made in AA5; except to a very minor extent, they are not dependent on DBP's ICT plans for AA6. However, DBP has stated that its savings are not based on its AA5 IT investments and, while we consider it likely that it has or will achieve some such savings, we make the working assumption that these are materially captured in its 2024 base year opex.

Table 7.20: DBP proposed and EMCa adjusted on IT sustaining applications - $m, real Dec 2024

	2026	2027	2028	2029	2030	Total
IT sustaining Applications - DBP proposed	0.9	1.3	1.0	1.0	1.0	5.3
less saving from system enhancement DBP hasn't taken into account						
DBP21-New-08: IT Sustaining Applications - refreshes of core business applications - System enhancements	*-0.5*	*-0.5*	*-0.5*	*-0.4*	*-0.4*	*-2.1*
DBP21-New-26: IT Sustaining Applications - OneERP Maximo incremental functionality enhancements	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-1.0*
Alternative estimate for opex step change for IT applications	**0.3**	**0.6**	**0.4**	**0.5**	**0.5**	**2.2**

Source: EMCa table derived from DBP response to EMCa18 – Q44 and capex Business Case BC21

7.5.4 IT sustaining infrastructure

Background and ERA Draft Decision

419. In its Initial Proposal, DBP proposed a step change totalling $1.8m over the five years, for IT infrastructure. In its Draft Decision, ERA disallowed the prosed expenditure on the basis that DBP had not provided evidence of additional IT infrastructure costs over AA6 that were not already included in its base year opex.

Assessment of DBP's Revised Proposal

420. DBP has reproposed the $1.8m that it initially proposed. In its response, DBP states that:

[98] DBP response Attachment .6, section 1.5.2 (page 15)

'…we have provided further information in Attachment 9.12 to demonstrate how these have already been taken into account in our proposed opex step change. When viewed together with the existing savings already been achieved in the base year from 2026 for IT ($2.1million), the additional cost for sustaining infrastructure is prudent and efficient and we seek a modification to the ERA's Draft Decision to reinstate the proposed amount in our Final Plan.'[99]

421. We reviewed the material referred to in Attachment 9.12, which demonstrates that DBP has assumed efficiency savings of 20% in calculating its proposed step increase. However, it does not provide information that would assist with understanding the rationale for the step change itself.

422. We sought information that might assist in understanding the basis for this, in conjunction with references DBP made (as above) to $2.1m of claimed IT cost savings from 2026. In response to an information request, DBP stated the following:

The $2.1m reflects the portion of IT cash costs that DBP is bearing (i.e. and so will not pass through to customers, reflecting a "saving/ benefit" to them). In this context, we are "absorbing" $0.3m of costs related to our [redacted] hosting environments and $1.8m of infrastructure related costs associated with [redacted] and [redacted] for our ERP applications.

This "saving" reflects our commitment to ensuring that we incentivise ourselves to be as efficient as possible, consistent with our commitment in the AA5 decision for ongoing savings (of around $2 million per annum in $2024), but with these costs already contracted with 3rd party vendors the likely outcome is that the majority or all of these costs will continue to need to be absorbed within the business and not passed on to customers.[100]

423. We have trouble reconciling the claims that DBP is making here. For example, while DBP claims to be absorbing $2.1m of costs, it has reported actual costs in its base year and ERA relied on this information in its Draft Decision. DBP's reference to $2.1m of absorbed costs appears to relate to the $2.1m 'base year adjustment' that DBP sought in its Initial Proposal, but which ERA did not approve. As we report in section 7.3, DBP has accepted this aspect of ERA's Draft Decision and is no longer seeking a base year adjustment for IT.

424. We also have difficulty reconciling statements DBP makes above that it is specifically absorbing $0.3m of [redacted] and $1.8m of [redacted] and [redacted] IT infrastructure costs, since DBP provided information in response to an earlier information request, that showed a breakdown of its actual IT costs in its base year, and which specifically includes these components.[101]

425. On the basis of its initial and its revised information, we consider that DBP has not provided evidence of additional future IT infrastructure costs, over and above those already included in its base year IT opex, and which would warrant a step change.

7.5.5 Cybersecurity initiatives

426. ERA approved DBP initial proposed of $2.3m step change for its cybersecurity. DBP proposed the same amount in its Revised proposal, therefore there is no further review is required.

7.5.6 EMCa adjusted opex step changes

427. In Table 7.21 we show the resulting alternative forecast for opex step changes.

99 DBP response Attachment 8.6, section 1.5.3

100 DBP response to EMCa IR022

101 DBP information provided in response to EMCa IR18, Q39c

Table 7.21: DBP proposed and EMCa adjusted for opex step changes - $m, real Dec 2024

Category	DBP initial	ERA DD	DBP Revised	*EMCa adjustments*	EMCa adjusted
Insurance premium costs	4.9	3.7	5.9	*0.0*	5.9
IT sustaining applications	8.3	0.8	5.3	*-3.1*	2.2
IT sustaining infrastructure	1.8	0.0	1.8	*-1.8*	0.0
Cybersecurity initiatives	2.3	2.3	2.3	*0.0*	2.3
Total	**17.3**	**6.7**	**15.3**	***-4.9***	**10.4**

Source: EMCa table derived from DBP's opex model, Att. 8-1 and EMCa Information Request (EMCa01)

7.6 Conclusions

7.6.1 Implied adjustments

428. In Table 7.22 we show comparison of aggregate opex over AA6 between DBP's Initial Proposal, ERA's Draft Decision and DBP's Revised Proposal together with the adjustments that we propose to each component in this allowance and the resulting alternative forecast.

Table 7.22: Summary EMCa adjustments to DBP proposed opex for AA6 - $m, real Dec 2024

Category	DBP Initial	ERA Draft	DBP Revised	*EMCa adjustments*	EMCa adjusted
Wages & Salaries	229.1	168.2	236.0	*-50.7*	**185.3**
Field expenses	67.1	67.1	70.2	*0.0*	**70.2**
Non-field expenses	109.7	84.9	97.1	*-4.9*	**92.2**
Government Charges	57.9	52.4	53.5	*-6.2*	**47.4**
System Use Gas	116.6	97.6	94.5	*0.0*	**94.5**
Reactive maintenance	6.3	5.2	5.2	*0.0*	**5.2**
GEA & Turbine overhauls	32.8	29.5	32.8	*0.0*	**32.8**
Inspections & Other Asset Management	33.0	30.1	33.0	*-2.9*	**30.1**
TOTAL	**652.5**	**535.0**	**622.3**	***-64.7***	**557.6**

Source: EMCa table derived from DBP's opex model, Att. 8-1 and Att. 8-1A

429. In Table 7.23 we present the resulting alternative opex forecast on a year-by-year basis.

Table 7.23: EMCa adjusted opex AA6 year by year - $m, real Dec 2024

Category	2026	2027	2028	2029	2030	TOTAL
Wages & Salaries	36.6	36.8	37.1	37.3	37.6	**185.3**
Field expenses	14.0	14.0	14.0	14.0	14.0	**70.2**
Non-field expenses	17.2	18.1	18.3	19.0	19.6	**92.2**
Government Charges	10.7	10.0	8.9	8.9	8.9	**47.4**
System Use Gas[102]	18.1	18.7	20.3	18.2	19.2	**94.5**
Reactive maintenance	1.0	1.0	1.0	1.0	1.0	**5.2**
GEA & Turbine overhauls	4.9	8.8	4.5	6.9	7.8	**32.8**
Inspections & Other Asset Management	4.3	9.9	9.8	3.1	3.1	**30.1**
TOTAL	**106.7**	**117.3**	**113.9**	**108.5**	**111.2**	**557.6**

Source: EMCa table derived from DBP's opex model, Att. 8-1 and Att. 8-1A

[102] Not reviewed (out of scope)