DRAFT DECISION
Amadeus Gas Pipeline
Access Arrangement

2021 to 2026

Attachment 5
Capital expenditure

November 2020

AUSTRALIAN ENERGY REGULATOR

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AER reference: 65198

Note

This attachment forms part of the AER's draft decision on the access arrangement that will apply to APT Pipelines (NT) Pty Ltd (APTNT)'s Amadeus Gas Pipeline for the 2021–2026 access arrangement period. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency carryover mechanism

Attachment 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

Attachment 11 – Non-tariff components

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Contents

5 Capital expenditure

Capital expenditure (capex) refers to the capital costs and expenditure incurred in the provision of pipeline services.[1] This investment mostly relates to assets with long lives and these costs are recovered over several access arrangement periods.

This attachment outlines our assessment of APTNT's proposed conforming capex for the Amadeus Gas Pipeline (AGP) over the 2016–21 access arrangement period, which forms part of its opening capital base.[2] It also outlines our assessment of forecast capex for the 2021–26 period, which forms part of its projected capital base.[3]

5.1 Draft decision

5.1.1 Conforming capex for 2016–21 access arrangement period

We approve $26.3 million ($2020–21) of APTNT's total net capex for the 2016–21 access arrangement period as conforming capex under rule 79(1) of the NGR. We also approve APTNT's actual capex of $9.8 million ($2020–21) in the 2015–16 year as conforming capex for the purpose of establishing the opening capital base for the 2016–21 access arrangement period.

Table 5.1 shows approved capex for the 2016–21 period by category.

Table 5.1 AER approved capital expenditure by category over the 2016–21 period ($million, 2020–21)

Category	2015–16	2016–17	2017–18	2018–19	2019–20[(a)]	2020–21[(a)]	Total (2016–21)
Expansion	0.1	0.1	0.0	-	-	-	0.2
Replacement	9.1	4.0	1.1	2.8	4.0	2.6	14.5
Non-system	0.2	0.8	0.3	0.5	4.9	0.7	7.3
Capitalised overheads	0.6	0.7	0.9	1.4	1.0	1.0	4.9
Gross Total Capital Expenditure	9.9	5.7	2.2	4.7	9.9	4.3	26.9
Contributions	-	-	-	-	-	-	-
Asset disposals	0.2	0.1	0.3	-	0.1	0.0	0.5
Net Total Capital Expenditure	9.8	5.6	1.9	4.7	9.8	4.3	26.3

Source: AER analysis.

(a) We have not assessed the 2019–20 or 2020–21 amounts as approved capex under this decision. This is because these values are estimates. We will undertake an assessment of whether the 2019–20 amounts are conforming capex in our final decision and 2020–21 as part of the next access arrangement decision.

1 NGR, r. 69.

2 NGR, r. 77.

3 NGR, r. 78(b).

Table 5.2 shows comparison of AER approved allowance and APTNT's proposed capital expenditure for 2016–21 access arrangement periods, by category.

Table 5.2 APTNT capex performance against the allowance by category over 2016–21 access arrangement period ($million, 2020–21)

Category	Proposed	Approved	Difference ($millions)	Difference (%)
Expansion	0.2	-	0.2	100%
Replacement	14.5	9.3	5.2	36%
Non-system	7.3	9.5	-2.2	-30%
Capitalised overheads	4.9	-	4.9	100%
Gross Total Capital Expenditure	26.9	18.8	8.1	30%
Contributions	-	-	-	-
Asset disposals	0.5	0.7	-0.2	-30%
Net Total Capital Expenditure	26.3	18.0	8.3	31%

Source: AER analysis.

In assessing APTNT's proposed capex in the earlier access arrangement period, we reviewed APTNT's submission and supporting materials. Our assessment of conforming capex includes the regulatory years for 2011–16. We consider the following when determining the opening capital base for 2016–21:

- 2015–16 capex – given that the 2015–16 year was a forecast at the time we made our 2016–21 final decision, we have assessed whether actual expenditure for this year is conforming capex.[4] This informs our opening capital base for the 2016–21 period.[5]
- 2016–19 capex – since we have actual capex for these years, we have assessed whether this is conforming capex.[6] We have included conforming capex in the opening capital base for the 2021–26 period.[7]
- 2019–21 capex – since we do not yet have actual capex for 2019–20 and 2020–21, we must include an estimate in the opening capital base. We have not assessed APTNT's estimate of capex for 2019–20 and 2020–21. We will assess 2019–20 in our final decision for the 2021–26 access arrangement, but will assess whether APTNT's actual capex for 2020–21 is conforming capex under the NGR in the

4 NGR, r. 77(2)(b).

5 Ibid.

6 NGR, r. 77(2)(b).

7 Ibid.

subsequent (2026–31) access arrangement period and adjust for any differences between actual and estimated capex.[8]

5.1.2 Conforming capex for 2021–26 access arrangement period

We approve $11.1 million ($2020–21) of APTNT's proposed total net capex for 2021–26 as conforming capex under r. 79(1) of the NGR. However, for our final decision we request APTNT provide forecasts of the asset disposals and capitalised corporate overheads for the 2021–26 period for inclusion into the proposed capex. As such, our approved amount is considered a placeholder for APTNT pending further information. Table 5.3 shows approved capex for the 2021–26 access arrangement period by category.

Table 5.3 AER approved capital expenditure by category over the 2021–26 access arrangement period ($ million, 2020–21)

Category	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Expansion	-	-	-	-	-	-
Replacement	1.4	1.5	1.8	1.6	1.3	7.6
Non-system	0.8	0.4	0.5	0.8	1.1	3.5
Gross Total Capital Expenditure	2.2	1.9	2.3	2.3	2.4	11.1
Contributions	-	-	-	-	-	-
Asset disposals	-	-	-	-	-	-
Net Total Capital Expenditure	2.2	1.9	2.3	2.3	2.4	11.1

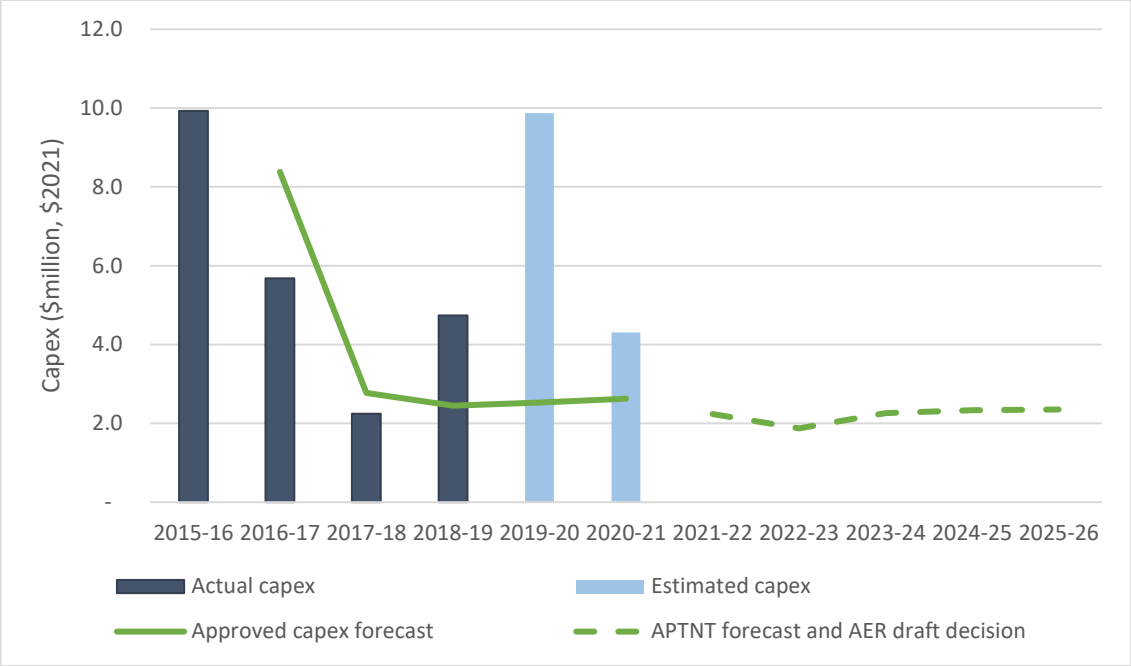
Source: APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Workbook 1 – Forecast*, July 2020.

[8] NGR, rr. 77(2)(b), 79.

5.2 APTNT's proposal

5.2.1 Capital expenditure over the 2016–21 and 2021–26 access arrangement period

Figure 5.1 APTNT's capex trends



Source: AER analysis.

APTNT proposed total conforming net capex of $26.3 million ($2020–21) for the 2016–21 access arrangement period.[9] This is 46 per cent above the approved forecast for the 2016–21 access arrangement period.

For the 2021–26 access arrangement period, APTNT proposes a total forecast net capex of $11.1 million ($2020–21), which represents a decrease of 58 percent below APTNT's actual expenditure for the 2016–21 period.[10] Figure 5.1 shows the actual/estimated capex for the 2016–21 access arrangement period compared to the forecast.

APTNT proposed capex for two categories – replacement capex (69 per cent of total forecast capex) and non-system capex (31 per cent of total forecast capex).

9 APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Workbook 2 – Historical*, July 2020.

10 APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Workbook 1 – Forecast*, July 2020.

5.3 Assessment approach

We must make two decisions regarding APTNT's capex.

First, we are required to assess past capex and determine whether it meets the criteria set out in the NGR to be added to the opening capital base.[11]

Secondly, we are required to assess APTNT's forecast of required capex for the 2016–21 access arrangement period to determine whether it is conforming capex. Capex will be 'conforming' if it meets the NGR's new capex criteria.[12]

The following sections set out our approach and the tools and techniques we employ in forming a view on these two issues. We also need to take into account timing issues associated with the lag between actual capex data being available in the last year of the 2016–21 access arrangement period and the need to forecast an opening capital base for the 2016–21 access arrangement period. This is explained in the next section.

5.3.1 Capex in the 2016–21 access arrangement period

We reviewed APTNT's submission and supporting material to assess its proposed capex for the 2016–21 access arrangement period. This included information on APTNT's reasoning and, where relevant, business cases, responses to information requests and other relevant information.

We used this information to identify whether capex over the 2016–21 period was conforming capex and, in turn, whether that capex should be included in the opening capital base.

Generally, we use the same approach to assess whether both historical and forecast or estimated capex conforms with the new capex criteria. We have set out this approach in more detail in below.

For the purpose of our draft decision, we have focused our resources on specific areas where there are significant overspends and underspends between our approved forecast and the expected actual capex. In the 2016–21 period, we have observed significant overspends in capitalised corporate overheads, where there was no AER allowance approved for this expenditure.

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11 NGR, r. 77(2)(b).

12 NGR, r. 79.

5.3.2 Conforming capex for the 2021–26 access arrangement period

We assessed the key drivers of forecast capex to consider whether APTNT's proposed capex complies with the new capex criteria.[13] In doing so, we relied on information, including:

- the access arrangement revision submission and access arrangement information (AAI) - these documents outline APTNT's program and main drivers of capital expenditure[14]
- the Amadeus Gas System FY22 – FY26 Lifecycle Management Plan and associated appendices which provide business cases detailing specific expenditure or technical requirements[15]
- APTNT's RIN template response[16]
- APTNT's capex forecast model[17]
- advice from specialist technical staff to inform our assessment of the capex forecast
- documents submitted as part of access arrangement proposal and supporting materials in 2015.

For each category of capex we considered the scope, timing and cost of the proposed capex in order to form a view on whether it complies with the new capex criteria. We also considered whether cost forecasts were arrived at on a reasonable basis and represent the best forecast possible in the circumstances.[18]

If we are satisfied the business' total forecast meets the NGR requirements, we accept the forecast. If we are not satisfied, we substitute the business' forecast with our alternative estimate. In making this decision, we take into account the reasons for the difference between our alternative estimate and the business' forecast, and the materiality of that difference. We also take into consideration the interrelationships between the capex forecast and other constituent components of our decision such that our decision is likely to contribute to the achievement of the NGO.[19]

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13 NGR, r. 79(1).

14 APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Revision Proposal*, July 2020; and APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement Information*, July 2020.

15 APTNT, *Lifecycle Management Plan Amadeus Gas System FY22-FY26,* 2020; and APA Group, *Pipeline Integrity Management Plan - Northern Territory APA Group Assets.*

16 APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Workbook 1 – Forecast*, July 2020; APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Workbook 2 – Historical*, July 2020; APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Response*, July 2020.

17 APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Attachment 4 – Capital Expenditure Model*, July 2020.

18 NGR, r. 74(2).

19 NGL, s. 28(1).

5.3.3 Interrelationships

In assessing APTNT's total forecast capex we took into account other components of its access arrangement proposal, including:

- the trade-off between potential capex and opex solutions in our assessment of APTNT's proposed capex
- any change in the capitalisation policy applied between the current access arrangement and the 2021–26 access arrangement period, and
- proposed real growth in the escalation of labour costs relevant to both opex and capex.

5.4 Reasons for draft decision

5.4.1 Conforming capex for the 2016–21 period

Conforming capex for 2015–16

APTNT has proposed net capex of $9.9 million ($2020–21) for the 2015–16 year, which we accept as conforming capex for 2015–16 as it is in line with the approved allowance.

Conforming capex for the 2016–21 access arrangement period

APTNT has proposed net capex of $26.3 million for the 2016–21 period ($2020–21), where capex in 2019–20 and 2020–21 are estimates.

Without the estimate of net capex for 2019–20 and 2020–21, APTNT has proposed $12.2 million as conforming capex.

We accept $26.3 million ($2020–21) as conforming capex for 2016–21. We will assess whether capex incurred in 2019–20 is conforming in our final decision, and whether capex incurred in 2020–21 is conforming in APTNT's next (2026–31) access arrangement. As such, APTNT's proposed 2019–20 and 2020–21 expenditures are considered to be place holders.

In reaching this view, we have considered the following factors:

- APTNT's capex is expected to be $26.3 million, 46 per cent more than the $18.0 million ($2020–21) we approved for the 2016–21 period.
- the largest overspend in the 2016–21 period is in relation to capitalised overheads. APTNT forecast actual and estimated expenditure of $4.9 million ($2020–21) for overheads. However, APTNT did not forecast any overheads in its access arrangement proposal for 2016–21, nor did the AER approve any in its forecast.

APTNT submitted that this cost is due to its IT applications renewal program,[20] a corporate level IT expenditure which the APA Group (parent company of APTNT) allocates across operating businesses on a revenue share basis, making forecasting difficult.[21]

- the next largest overspend was the application of Australian accounting standard AASB16 leases of right-of-use assets, which capitalised lease payments in a one-off adjustment of $4.1 million ($2020–21) in 2019–20[22]
- an unforeseen project for pressure control equipment in Warrego, where APTNT spent $2.2 million ($2020–21) to maintain capacity to meet existing levels of pipeline services after installation of the interconnection to the Northern Gas Pipeline
- the largest underspend in the 2016–21 period occurred in building modifications expenditure, which sits within the non-network capex category. APTNT is expected to spend $3 million less than forecast ($2020–21), as planned new building relocation has not occurred due to difficulties with the purchase of a suitable site. APTNT submitted that some minor modifications have been made to the existing Palmerston facilities instead.[23]

Our assessment revealed that most aspects of APTNT's proposal are consistent with the NGR requirements. That is, the proposed expenditures is justified and would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services. Consequently, we have accepted APTNT's capex for the 2016–21 period.

5.4.2 Conforming capex for the 2021–26 period

Expansion capex

Expansion capex is capex that is required to expand the capacity of the pipeline to meet forecast demand both within and beyond the access arrangement period. APTNT has not forecast any expansion capex in the 2021–26 access arrangement period, although we understand that discussions have been initiated amongst stakeholders for an expansion proposal. Should an expansion proposal be forthcoming as part of the submission of APTNT's revised proposal, we would assess any proposed capex as per NGR requirements. Attachment 12 – Demand, provides further information on stakeholder engagement and the regulatory considerations to an expansion proposal.

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[20] APTNT, *Response to information request IR05,* received 16 October 2020.

[21] APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Response*, July 2020, p. 20.

[22] APTNT, *Amadeus Gas Pipeline 2021-26 Access Arrangement – Reset RIN Response*, July 2020, p. 19.

[23] Ibid, p. 21.

Replacement capex

Replacement capex is capex that is required to maintain the safety and integrity of the pipeline. This category includes the refurbishment and replacement of:

- instrumentation, including metering, telemetry and remote terminal units
- pipeline hardware, including pipes, meter valves, regulators and fittings
- site capital improvements, such as fencing and security
- specialised major spares.

We have included $11.1 million ($2020–21) for replacement capex in our forecast of conforming capex for the 2021–26 access arrangement period. We consider this amount is sufficient for APTNT to maintain the safety, reliability and integrity of the APTNT, and is prudent and efficient.[24]

APTNT's proposal

APTNT's forecast replacement capex program includes capex for twelve separate replacement projects or programs. Nine of these are minor asset replacement or refurbishment projects or programs, planned to ensure the APTNT continues to meet regulatory, safety, environmental, and service level requirements in the 2021–26 access arrangement period.

Table 5.4 APTNT, Proposed capex ($million, 2020–21)

Proposed capex	2021–26
Cathodic protection	
New cathodic protection sites	2.2
Replacement cathodic protection ground beds	0.2
Cathodic protection unit upgrade program	0.2
Electrical and Instrumentation	
Solar panel upgrades	0.2
Battery charger upgrade program	0.1
Battery replacements	0.3
Hazardous area equipment upgrades	0.5
Remote terminal unit replacement	0.8
Integrity	
Heat shrink sleeve upgrade	1.3

[24] NGR, rr. 79(1)(a), 79(2)(c).

Proposed capex	2021–26
Mechanical	
MLV actuators upgrade program	0.5
Wizard controller upgrade program	0.1
Purchase	
Miscellaneous capital	1.0
Motor vehicles [(a)]	3.4
Total	**10.9**

Source: AER analysis. Totals may not sum due to rounding.

(a) See Non-system capex section for further information.

These projects and programs are typically routine and ongoing in nature, such as pipeline integrity and corrosion management, end of life replacement of equipment as well as replacement due to obsolescence. The total cost of these nine minor projects and programs is $3 million ($2020–21).

The remaining three projects, the new cathodic protection sites, heat shrink sleeve upgrade program and miscellaneous capital, account for $4.5 million or 41 per cent of the forecast replacement capex. Details of these projects are below.

Cathodic Protection Sites

APTNT forecast capex of $2.2 million ($2020–21) for new cathodic protection sites in the 2021–26 access arrangement period.

Cathodic protection (CP) is applied to prevent corrosion that could result in a leak or rupture. CP is installed at intervals determined by a CP system design and is monitored through annual CP surveys at test posts along the pipeline to identify locations of poor protection.[25] Additional CP units (or more powerful units) are installed to provide the necessary current to restore full protection at these points.

To maintain CP levels as required by AS 2885.1/ AS 2832 and the APTNT pipeline licence, APTNT anticipates that a new CP site will be required to be installed annually.[26] Installation would require assessment and planning for the future CP requirements of pipeline, and the new sub-leases of land to be negotiated for installation of the new CP sites. Negotiations of sub-leases are grouped together to increase the flexibility of timing for specific sub-leases.

[25] APTNT, *Lifecycle Management Plan Amadeus Gas System FY22-FY26,* 30 June 2020. p. 12–13.

[26] Ibid, p. 23.

APTNT estimates that costs to land leases would be $125,000 while installation cost per site would be $420,000. Annual installation work would typically be carried out with a combination of APA and contract resources.[27]

Heat Shrink Sleeve Upgrade Program

APTNT forecast capex of $1.3 million ($2020–21) for their heat shrink sleeve upgrade program in the 2021–26 access arrangement period.

Heat shrink sleeves are applied across field welds on the APTNT to seal the pipeline from the environments. Over time, these sleeves corrode at a reasonably slow rate and are identified by in-line inspection for repair. Over recent years 13-17 corrosion repairs per year have been carried out and APTNT intends to maintain this level of repair[28].

The repair program will likely be annual throughout the remaining life of the APTNT. Repair logistics involve a repair crew conducting work on approximately 2 repairs every three days on average. The anticipatory 13-17 corrosion repairs per year fits within an annual program. A budget of $255,000 per year allows for approximately 17 digs per year during dry season following in-line inspection surveys, when the pipeline is accessible. Current integrity study results could determine addition repairs to be carried out but is unlikely to recommend excessive repairs.[29]

Miscellaneous capital

APTNT forecast capex of $1 million ($2020–21) for miscellaneous capital items in the 2021–26 access arrangement period.

This category is a small funding pool to facilitate replacement of minor capital assets, such as plant and equipment in response to condition or age in an ad hoc fashion. All purchase approvals are controlled under APA's delegation limits.[30]

Our assessment

We accept APTNT's forecast capex for the nine minor projects as conforming capex in accordance with rule 79 of the NGR.[31] We are satisfied that:

- APTNT's access arrangement revision submission and asset management plan sufficiently justify the need, timing and cost of these minor projects and programs
- the basis of the forecast capex for each project as set out in APTNT's lifecycle management plan for 2021–26 appears reasonable and are largely consistent with a pipeline of such age and condition

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27 APTNT, *Lifecycle Management Plan Amadeus Gas System FY22-FY26,* 30 June 2020. p. 24.

28 Ibid. p. 14.

29 Ibid. p. 21–22.

30 Ibid. p. 15.

31 With the exception of labour cost escalation as discussed below.

- the forecast capex would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services
- the forecast capex is likely to be justifiable on the basis that the asset replacement works are necessary to maintain the safety and integrity of pipeline services.

Cathodic Protection Sites

We accept that given the length and age of the AGP, it is likely that additional cathodic protection would be required. Further information was sought from APTNT to provide supporting material and analysis that five additional solar powered CP sites would be required within the 2021–26 arrangement period. APTNT provided an explanation of their analysis of test site data to determine the presence of effective CP or when additional CP is indicated. Data was also provided from the Ti Tree North – Wauchope South test site that supports the installation of a new CP site about 60 kms of Wauchope South.[32] APTNT advised that further new site locations are yet to be determined and requires further monitoring of protection levels.

APTNT has maintained an ongoing cathodic protection work program at similar replacement rates over the 2016–21 period that was approved as part of the 2016 AER allowance. For the current period, APTNT is estimating to overspend by $152,000 to realise work efficiencies to coincide installations with solar PV panel replacements. Historical costs of a recent installation in Morphett Creek were submitted to support the forecast of $420,000 for one CP site installation per year.

We are satisfied that, based on the information before us, the project is justified on the grounds of maintaining the integrity of services and costs to the project are arrived on a reasonable basis.

Heat Shrink Sleeve Upgrade Program

Similar to the cathodic protection program, APTNT has been undertaking a heat shrink upgrade program over the 2016–21 access arrangement period[33]. Based on the studies from 2008 and 2013, sleeve repair rates has been reduced from approximately 100 per year to 13-17 repairs per year through a revised assessment methodology.

We queried whether a more recent 2018 inline inspection study was used to inform on the forecasted 17 repairs per year over the 2021–26 period. APTNT advised that the forecast of 17 repairs are the maximum annual rates of repairs that have been undertaken in recent years, and work is ongoing to refine estimation methods using 2018 and 2020 in-line inspection data[34]. Furthermore, proposed amendments to AS 2885 have introduced uncertainty on adopting a higher safety factor that would

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32 APTNT, *Response to information request IR04,* received on 29 September 2020.

33 The last reset, APTNT, *Lifecycle Management Plan Amadeus Gas System FY22-FY26,* July 2020. p. 20–21.

34 APTNT, *Response to information request IR04,* received on 29 September 2020.

precipitate increased excavation following identification of corrosion from in-line inspection[35]. The decision on a new safety factor is not expected until next year.

Based on the information before us, we are satisfied that the repairs forecasted are reasonable in light of uncertainty with new standards and ongoing program is justified on the grounds of maintaining the integrity of services.

Miscellaneous capital

APTNT submitted data of their miscellaneous capital expenditure for the past five years. We are satisfied that the forecasted figure is derived from historical average and conclude that it is conforming capex.

Non-system capex

Non-system capex relates to the replacement or refurbishment of non-system assets such as motor vehicles, buildings and information technology.

Motor vehicles

APTNT's proposed non-system capex category for the 2021–26 access arrangement period consists of $3.4 million ($2020–21) for motor vehicles, which accounts for 31 percent of total capex.

APTNT operates a fleet of vehicles to service the APTNT system including light cars, utilities and 4WD trucks. Vehicles are purchased or replaced on an as required basis in accordance with the national Motor Vehicle Policy.[36]

The criteria for replacement are:

- Passenger (including sedans and station wagons)- the earlier of 3 years and 150,000 km
- Light commercial 2WD and 4WD (including vans, utes and trucks with a gross vehicle mass (GVM) of less than 4.5 tonnes – the earlier of 4 years and 200,000kms
- Heavy commercial 2WD and 4WD 9 trucks with a GVM of 4.5 tonnes or more – 10 years[37].

The APTNT pipeline operates in some very remote areas of Australia and the vehicles need to be suitably equipped and designed for use across the pipeline environment including some significant off-road areas for access to remote sites. APTNT proposes the following replacement schedule:

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35 Ibid.

36 APTNT, *Lifecycle Management Plan Amadeus Gas System FY22-FY26,* 30 June 2020. p. 51.

37 Ibid.

Table 5.5 APTNT motor vehicle replacement schedule

Vehicle	Unit cost	2021–22	2022–23	2023–24	2024–25	2025–26
Hilux	$85,000	3			3	4
Land cruiser	$100,000	5	4		5	7
Trucks	$200,000			2		
Fork truck	$60,000			1		
Air Compressor	$35,000	1				

Source: APTNT, *Lifecycle Management Plan Amadeus Gas System FY22-FY26,* July 2020. p. 52.

Our assessment

We have reviewed information provided with APTNT's proposal and sought further information about the status and condition of APTNT's existing fleet.

We found that APTNT's proposed replacement schedule is consistent with APA's replacement criteria, which remains the same as previous AA period and is comparable to other Australian network service providers.[38]

We sought further information on the cost estimation of each vehicle and is satisfied with APTNT's provision of quotes for replacement vehicle costs. Cost estimates include a large range of vehicle accessories required to manage off-road conditions in remote parts of the APTNT.

We are satisfied that APTNT's forecast motor vehicle capex of $3.4 million ($2020–21) is such as would be incurred by a prudent operator acting efficiently. We consider APTNT's approach to fleet management is consistent with good industry practice and the capex is justifiable on the basis of rule 79(2)(c) of the NGR.

APTNT did not account for any forecast disposals of motor vehicles in its submission for the 2021–26 AA period. In response to our information request, APTNT advised that while it expects to replace some 36 motor vehicle assets in the AA period the second-hand market for some items such as air compressors and forklift are small, and the condition of their vehicles are such that the proceeds from auctions are highly variable.[39] Given the uncertainty around prices, APTNT submits that it will report on the values of disposals for the purpose of adjusting the capital base at the commencement of the next (2026–2031) AA period. We consider that a service provider should still provide a best forecast possible that is arrived at on a reasonable basis.[40] We request that APTNT provide details and supporting information for the 2021–26 period, similar to what it was able to provide during the 2016–21 access arrangement period.

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38 For example, JGN, *Fleet Asset Class Strategy,* June 2019.

39 APTNT, *Response to information request IR05,* received 16 October 2020.

40 NGR, r. 74.

Capitalised corporate overheads

APTNT has not forecasted any capitalised corporate overheads for the 2021–26 period. Despite this, we consider that it is likely that this expenditure will continue to be incurred similar to the 2016–21 period where corporate level IT Applications are allocated on a revenue shared basis. We request that a forecast that is arrived at on a reasonable basis be provided in APTNT's revised submission.

Cost escalation and reconciliation

In our draft decision for the 2021–26 access arrangement period, we have considered the inputs:

- Actual inflation prior to 2020–21 and forecast inflation for 2020–21.
- Labour real cost escalators based on Deloitte Access Economics (DAE) forecasts (Attachment 6 – Operating expenditure).

As APTNT has based its forecast on historical inputs, and presented its inputs in December 2019 dollar terms, we have reviewed actual inflations prior to 2020–21 and forecast inflation for 2020–21.

We accept APTNT's proposed inflation for the purpose of our capex decision on the basis that it aligns with its proposed roll forward model (RFM) and our capital base decision (Attachment 2 – Capital Base). It is worth noting that our final decision will likely reflect actual inflation for 2020–21.

In terms of labour real cost escalators, APTNT did not forecast labour price movement in its proposal. While there are differences between APTNT's proposed labour price movement (i.e. zero) and our alternative forecast, we found the associated capex impact to be immaterial. As such, we accept that the labour costs associated with the capex forecast to be reasonable.

Shortened forms

Shortened form	Extended form
AAI	Access Arrangement Information
AER	Australian Energy Regulator
AGP	Amadeus Gas Pipeline
APTNT	APT Petroleum Pipelines Northern Territory
CAM	Cost allocation method
capex	Capital expenditure
COAG	Council of Australian Governments
DAE	Deloitte Access Economics
I&C	Industrial and commercial
IT	Information technology
MOU	Memorandum of understanding
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NPV	Net present value
opex	Operating expenditure
RF	Radio Frequency
RFM	Roll forward model
RIN	Regulatory Information Notice
TJ	Terajoules