



Access Arrangement Review AusNet Services (AusNet)

Public

Prepared for



Date 24 November 2022

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1 Introduction

In July 2022, AusNet Services (AusNet) submitted its revised Access Arrangement (AA) for its Victorian gas networks for the period 1 July 2023 to 30 June 2028 to the Australian Energy Regulator (AER). To assist in the capital expenditure review, the AER engaged Zincara P/L (Zincara) to advise on the capital expenditure category: Other Capex.

2 Approach

The key steps of our approach are:

- Review the relevant documents provided by AusNet in its submission.
- Determine whether the assumptions on the capex are appropriate.
- Comment on the efficiency of APA's proposal

Zincara had used the requirements of the National Gas Rules as the test for the prudence and efficiency of the costs. The National Gas Rules Division 4 Section 79 for capex.

3 AusNet's Proposal

AusNet Other Capex includes all the capex that do not fall into other capex categories and include the following:

- \$16.4 million for major alterations. These are large scale construction projects where a third party, such as the government, request an alteration to a part of our network. AusNet said that there is usually a significant customer contribution amount associated with this category.
- \$2.9 million for security fences and CCTV upgrades. AusNet advised that this expenditure is due to the new obligations from the recent amendments to the Security of Critical Infrastructure Act 2018. Nine city gate regulator sites have been identified as requiring security fences and an additional four sites require CCTV upgrades. This is a step change from the current access arrangement period.
- \$5.9 million for Transmission Line Pigging of aging transmission pipelines.
- \$5.3 million for general capex, for buildings and equipment remain fit for purpose.

A summary of the Other Capex category is shown in the table below.

Table 1: Other Capex Expenditure (\$m 2023)

Program	
Major alterations	16.4
Security fences and CCTV upgrades	2.9
Transmission line pigging	5.9
General capex	5.3
Total	30.6
Customer contribution	-7.5
Net capex	23.1

Source: ASG Access Arrangement Information 2024-28

4 Major Alterations

The projects usually originate from requests from third parties such as the State Government, Councils and developers.

In its response to the AER's request for information, AusNet confirmed¹ that the projects are initiated by third parties. The projects are typically major alterations to the gas networks such as relocation of a pipeline for highway construction. The party that initiates the request generally pays 100% of the cost of the capital works. AusNet indicated that they are in constant discussions with large customers and as such confident that the major alteration expenditure will be required year on year. However, until a customer finalises the scope of the project, AusNet is not able to confirm the project cost.

Examples of the projects² that fall into this category are:

1. Xxxx Melton – relocation of approximately 3.5km of 150mm TP pipe; PL90 – Likely completion end 2023 to early 2024 - Early works is in progress. Expected to be a gifted asset. Approximate cost xxx.
2. Xxxx - new field regulator along with downgrade of approximately 1.5km of 300mm TP to HP - likely completion end of 2023. Approximate cost xxx.
3. Maidstone Tram Maintenance Depot – Identified impacts on both distribution and TP assets. Likely completion mid 2023 - Early works is in progress. Approximate cost xxx.
4. Xxxx - Identified impacts on both distribution and TP assets. Likely completion mid 2023– Early works is in progress. Approximate cost xxx.
5. Xxxx - Identified impacts on both distribution and TP assets. Cost (TBC) – likely completion end 2023– Early works is in progress.

¹ IR006-Public

² AGSIRO12Capitalised leases20220906-Other Capex-Confidential

AusNet in its response also said that its estimate of a direct cost of \$3million per year or \$15million over five years is based on its historical volumes. It had added overheads and escalation to bring the total up to \$16.4million. As this is a provision, it is not possible for it to breakdown to specific projects.

Prior to a project commencement, an offer is made to a customer based on quotes from AusNet's delivery partner. The project will only start after the customer has accepted to pay for the cost of the project.

AusNet also advised that the customer contribution for this category should equal the cost. As such the net effect of this capex is zero and no revenue will arise from this category.

4.1 Conclusion

We are aware that from time to time, there are projects from third parties that require distributors to relocate or install new infrastructure. In such cases, the third parties often pay the costs of the relocation or installation. From a capex perspective, the net effect on the capital base is zero due to the customers' contribution.

AusNet advised that its forecast is based on historical volume of direct expenditure. It would be desirable to see how AusNet has derived an annual direct cost provision of \$3million from historical volume. However, there is no net increase on the capital base as the customer contribution is equal to the total capex. From an individual project perspective, the project is considered prudent as it is a customer-initiated project. In addition, the job only commences after the customer has accepted the quote for the project and agreed to paying the cost. As the customer can always scrutinise the cost before accepting, we consider the individual project cost to be efficient.

In addition, AusNet advised³ that they have updated the Capex model to ensure that the capex and the customer contribution are aligned. We, therefore, recommend accepting the capex as reasonable.

5 Security Fences and CCTV Upgrades

5.1 Security fences

AusNet advised that the introduction of Security Legislation Amendment (Critical Infrastructure) Bill 2020 has placed obligations on AusNet to ensure that its networks have adequate safeguards from potential threats of vandalism. As such, AusNet has undertaken a review of security provision at all City Gate sites. The review takes into consideration the site location, customer

³ ASG-IR#023-Other Capex (Follow up on IR12 and IR 19)-20221109-Confidential

impact, existing fence type and kiosk type. AusNet has identified nine⁴ of its city gates have a high safety risk to the community in an event of malicious activity.

AusNet proposes to replace the current fencing on these sites with anti-climb fencing.

5.2 Close Circuit Television (CCTV)

In addition to the anti-climb fencing, AusNet has also identified four city gates which are the single sources of gas supply to major towns. As an example, xxxx. These sites have high security fences but due to the high consequence of vandalism, AusNet propose to install CCTV on these sites.

Capex

The capex for this work is shown in the table below.

Table 2: Security Fence and CCTV Upgrades Expenditure (\$000 Real 2022)

	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Security fencing	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
CCTV	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
Total	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx

Source: ASG-GAAR-AMS 330-51 Network Regulators Strategy

AusNet later advised⁵ that the difference between the costs for the security fences and CCTV upgrades in Table 2 and Table 1 is that Table 2 is only direct cost whilst Table 1 is the direct costs with escalations.

5.3 Conclusion

AusNet has assessed the city gate sites to ensure that it is complying with the Security Legislation Amendment (Critical Infrastructure) Bill 2020 and has identified nine sites which require anti-climb fences. We therefore consider it prudent to have these sites upgraded.

The project relating to the security of the city gate is a compliance issue and as such, we would consider it prudent to upgrade the fences for the nine city gates.

Regarding the installation of CCTV on four of the city gates, we also consider it prudent to carry out the installation of the CCTV for extra protection from vandalism. These city gates are single sources of supply to major towns and any vandalism could result in severe consequences (e.g loss of supply to the town).

In response to the AER for further information on the costs of the fences and the CCTV, AusNet advised that the costs were estimated using a bottom-up approach and historical unit rates. The unit rates used in calculating the costs are shown in the table below.

Table 3: Unit Costs for fences and CCTV

	Unit cost

⁴ ASG-GAAR-AMS 330-51 Network Regulators Strategy Table 9

⁵ ASG-IR#023-Other Capex (Follow up on IR12 and IR 19)-20221109-Confidential

Fencing	xxxx
Pedestrian gate	xxxx
Vehicle gate	xxxx
CCTV Upgrade	xxxx
Concrete	xxxx

Source: AGSIRO12Capitalised leases20220906-Other Capex-Confidential

In addition to the unit rates, AusNet had also provided⁶ a table showing the breakdown of costs for each of sites requiring security fencing.

We note that the detailed breakdown of direct costs is from unit costs which are based on historical rates. As such, we consider the direct costs to be efficient.

6 Transmission Pigging

AusNet proposes to ensure the integrity of its transmission pipeline by carrying out intelligent inline inspection. As such, AusNet carried out an assessment to determine which pipelines will be pigged in the 2024-28 AA period using the following assessment criteria:

1. Single fed networks, where the pipeline damage may result in large scale supply interruption.
2. Adequate length of pipe with consistent diameter – this is a critical requirement to undertake pigging operations.
3. Easy access where the pig launcher and receiver can be installed.
4. Older than 48 years of age.

The assessment identified two pipelines that need to be modified so that pigging can be carried out. Details of the costs are:

Table 4: Transmission Pigging Expenditure (\$000 Real 2022)

	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Initial verification, FEED, regulatory engagement, landholder agreements and detailed design	xxxx	-	-	-	-	xxxx
Scope of works for fabrication of launches, pigging, tender package	-	xxxx	-	-	-	xxxx
Business case development, internal approvals and fabrication	-	-	xxxx	-	-	xxxx
Site construction, pigging support	-	-	-	xxxx	-	xxxx

⁶ AGSIRO12Capitalised leases20220906-Other Capex-Confidential

Pigging report assessment and validation of defects	-	-	-	-	XXXX	XXXX
Total	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Source: ASG-GAAR-AMS 330-50 Transmission Pipeline Strategy

AusNet advised⁷ that the above costs have been adjusted to match the quote from its contractor, xxxx. The direct capex is now xxxx and not xxxx as shown in Table 5.

6.1 Conclusion

Under Australian Standard, AS2885, the pipeline operator is required to maintain the integrity of the pipeline and the industry standard is to carry out intelligent inline inspection to assess the condition of the pipeline. As such, modifying pipeline to be able to carry out such operation is considered prudent.

In response to the AER’s request for further information on the costs, AusNet said⁷ that it is considering carrying out this project as a turnkey project. Due to the cost of the project, AusNet had sought competitive tender for a contractor to develop the scope and cost for the necessary work. xxxx was successful after AusNet had evaluated its expertise, ability to deliver and cost. Xxxx was the least cost option. AusNet’s proposal is therefore based on xxxx estimate.

Given the process that AusNet had adopted to estimate its proposal, we consider the direct cost to be efficient.

7 General Capex

This capex is for ensuring the buildings and equipment remain fit for purpose. AusNet indicated⁸ that the annual forecast expenditure of xxxx is based on the 2017 capex factored up by 5%. The forecast annual capex is constant for the 2024-28 period. AusNet also provided information showing that for the period 2017-2022, it is incurring costs at approximately the same level as in 2017.

AusNet also advised⁹ that, in addition to the provision, the other main project in this category is xxxx. Xxxx giving AusNet to consider a long-term option. As such, AusNet considered three options in its NPV analysis:

- 1 xxxx;
- 2 xxxx; and
- 3 xxxx.

AusNet decided that the most viable and lowest NPV option was xxxx

⁷ ASG-IR#023-Other Capex (Follow up on IR12 and IR 19)-20221109-Confidential

⁸ AGSIRO12Capitalised leases20220906-Other Capex-Confidential

⁹ ASG-IR#023-Other Capex (Follow up on IR12 and IR 19)-20221109-Confidential

AusNet then carried out a bottom-up estimate to determine the total cost¹⁰ of the project at xxxx. of the project is to be funded to its ICT cost which leaves for its relocation. As the project was its gas, electricity distribution and electricity transmission, AusNet had allocated the total cost into 15% gas distribution, 42% electricity transmission and 43% electricity distribution. The gas network contribution to the total project equates to xxxx. This gas network contribution is equivalent to an annual cost xxxx.

The total direct cost is xxxx which consists of the annual provision and the annual project cost for the relocation.

7.1 Conclusion

We acknowledge that there needs to be a provision for cost incurred for ensuring buildings and equipment remain fit for purpose. AusNet's approach of using the 2017 cost factored by 5% as the base line is considered reasonable as it is incurring similar expenditure for the period 2017-2022. We, therefore, recommend accepting the provision as prudent and efficient.

In addition, with the xxxx, AusNet has reviewed the xxxx before deciding on the least cost option. We consider the approach to be prudent. Regarding the cost, our review on the information provided had not raised areas of concern and as such, we consider the direct cost to be efficient.

¹⁰ Details of the cost are in ASG-IR#023-Other Capex (Follow up on IR12 and IR 19)-20221109-Confidential