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APA VTS 2023-2027 access arrangement

2022 updated WORM business case - further cost update (as at end May 2022)

August 24, 2022



APA VTS 2023-27- Updated WORM business case - update to forecast cost information

Background

On 18 March 2022, APA VTS Australia (Operations) Pty Limited submitted to the AER an update of the Western Outer Ring Main (WORM) Project Business Case as part of the proposal for the 2023-27 Victorian Transmission System (VTS) access arrangement proposal.

The updated business case sought to address requests for information by the AER and stakeholders on the prudence and efficiency of the WORM in light of increased uncertainty in demand and supply conditions. APA VTS prepared the revised business case to demonstrate that investment in the WORM is prudent and efficient and is in the long-term interests of Victorian gas consumers.

This note provides a comparison of APA Board approved WORM cost forecasts between September 2018 (\$167m) to end-May 2022 (\$216m), the variances in costs, and the reasons for the variances.

Forecast cost of the WORM submitted in March 2022

In 2017, the cost of the WORM project was estimated to be \$127 million, and the project was planned to be completed by Q1 2021. Since then, there has been a two-year delay to the project to meet Victorian Government planning requirements to conduct an Environment Effects Statement (EES). Unfortunately, the delay and outcomes of the EES have contributed to increases in the cost of the project that were beyond APA's control.

In September 2018 the APA Board approved capital expenditure of \$167 million for the construction of the WORM with a target operation date of July 2021. APA Board approval was based on AEMO's analysis indicating that the VTS will come under significant system stress from late 2021 without the WORM. The contingency approved by APA's Board was to cover unknown costs as a result of not being able to lock down a final alignment and a detailed construction budget.

In the 2022 updated WORM business case, we stated that the WORM project was in-flight following the acceptance of the EES by the Victorian government. Work on the project ramped up to meet the winter 2023 demand.

The forecast cost to complete the WORM submitted in the updated business case as part of the 2023-27 access arrangement proposal was revised to \$185 million (excluding overheads). The revised forecast was based on the best information available at the time but had not been Board approved.

In the updated WORM business case and during stakeholder engagement, we noted that there may be further changes to the forecast costs to address concerns from the EES. In addition, we flagged further uncertainty in costs because construction contracts had not been market tested and outcomes would depend on the tenders received for construction.

Forecast cost of the WORM June 2022

In late May 2022, APA Board approved additional expenditure for the WORM project bringing the total APA Board approved expenditure to \$216.8 million.

The project has incurred additional costs largely linked to the increase in costs during the two-year delay as a result of having to prepare the EES and having to implement additional recommendations from the EES.

As tenders from construction and other services are being received, we are finding that the current squeeze in the labour market and global supply chain backlogs are affecting the bid prices from contractors to undertake the work. This has resulted in increased costs of the WORM.

The following table presents a summary of the budgeted expenditure between September 2018 and May/June 2022.

Variances in Board approved budget for the WORM

	Budget September 2018 (\$M)	Budget May/June 2022 (\$M)	Variance (\$M)	Reason
Project management	6.5	6.9	0.4	Project Management Support during EES process
Land approvals	26.6	52	25.4	Additional labour costs due to two-year extended EES Legal costs to support compulsory acquisition Consultants and legal costs to support EES Higher Net Gain Offsets Preparation of CHMP and Salvage Higher land access costs
Design	7.9	9.8	1.9	Geotech, HDD Design Consultants and HDD lab testing Support of ESS
Procurement	33.6	34.5	0.9	Increase cost of coated line pipe

Construction	67.5	104.8	37.3	<p>Increase in Pipeline Construction due to:</p> <ul style="list-style-type: none"> • Trenching costs in rock • Multiple tie-ins • Additional Horizontal Directional Drilling (HDD) (Jacksons & Deep Creek) • Extra length of HDDs due to geological and topographical constraints • Increased cost due to urban development (Street works) • Increased cost due to Department of Transport requirements – extra depth & backfill <p>Increased Facilities Construction</p> <p>Increased Construction Supervision</p>
Commissioning	1.5	3.3	1.8	<p>Ops establishment (spare parts, special tools and manuals)</p> <p>Additional support pre-commissioning and commissioning</p>
Other	23.4	5.5	(17.9)	Allowance has reduced as contracts are close to finalisation.
Total	167.0	216.8	49.8	

Timing of capital expenditure for WORM

The timing of the forecast costs are expected to be:

\$m	2018	2019	2020	2021	2022	2023	2024	Total
WORM project	0.8	6.7	8.7	22.3	117.8	59.5	1.0	216.8

There are ongoing risks associated with landowners, cultural heritage, and construction that are being managed and mitigated. Therefore, there are risks that the final cost of the WORM may be higher. These costs cannot be quantified as yet.