Zincara

From strategy to action

Operating Expenditure Review
Winchelsea Compressor

Public

Prepared for

AUSTRALIAN ENERGY REGULATOR

Date 29 Nov. 2022

Zincara P/L

11 Alexandra Street

St Kilda East 3183

DISCLAIMER

Zincara endeavours to provide accurate and reliable reports based on supplied data and information. Zincara and its staff will not be liable for any claim by any party acting on or using the information supplied in this review.

Report prepared by:	**Brian Fitzgerald**
Reviewed by:	**Ed Teoh**

1 Introduction

During the latter part of the AER review period and just prior to publishing its Draft Decision, discussions relating to alternate solutions for the operation of the Southwest pipeline (SWP), led to an alternate approach that would involve the installation of one additional compressor at the existing Winchelsea compressor station. The aim being to provide increased capacity to the SWP prior to winter 2023.

In its Draft Decision, the AER said:

"*Opex costs of $1.25 million ($2022) have been proposed for this alternative approach but not in a reasonable time for us to determine the efficiency of these costs for the draft decision. As a result the efficiency of these cost will be assessed with APA's revised proposal for VTS, noting that costs may be relatively minor as the asset will be new and used relatively minimally for peak demands. We encourage APA to include information about the magnitude of these costs and their efficiency in its revised proposal*".

APA VTS submitted a business case in support of this alternate solution. The AER has sought advice from Zincara P/L (Zincara) on the operating costs.

This paper details Zincara's findings and conclusions.

2 Approach

The key steps of our approach are:

- Review the relevant documents provided by APA in its submission.
- Consider any other stakeholders (e.g. AEMO) comments on the operating costs.
- Determine whether the assumptions on the operating costs 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 7 provides guidance on the criteria governing operating expenditure. Section 91 (1) states:

"Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services."

3 APA VTS – Revised Proposal

In its revised proposal in response to the AER's Draft Decision APA[1] said "*We expect Winchelsea operating hours (and costs) to be higher in the upcoming access arrangement period than have been observed over the current access arrangement period. With the declining production from Longford, we expect more gas to be sourced from western Victoria, which will require more operating hours from the Winchelsea compressor station.*

In response to AER's comment that costs may be relatively minor with the additional compressor "used relatively minimally for peak periods", APA said "*The maximum capacity of the Winchelsea compressor station is achieved when both units are operating. While it may be reasonable to expect simultaneous operation to occur on only the top peak days, we anticipate that the Winchelsea compressor station will most frequently operate with a single unit running".*

Finally APA said it *"believes that the Winchelsea compressor station will run more frequently as more gas is sourced from western Victoria. While AEMO will be responsible for dispatching the compressors, good operating practice suggests that the compressors will be dispatched to levelise the operating hours across the two units. With the expected increased role of the Winchelsea station, it would not be unreasonable to expect that each of the two Winchelsea units might operate as much as the existing single unit does now.*

APA proposes that the Winchelsea compressor operating costs would be similar to the new Wollert 6 costs of $250,000 per year, as it also is an additional unit at an existing site.

4 Australian Energy Market Operator (AEMO) Comments.

As part of its assessment for the operating costs associated with the additional compressor at Winchelsea, AER sought response from AEMO. They confirmed the operational information provided by APA but disagreed with the view that a comparison should be made to the existing Wollert compressors, as these compressors are akin to baseload operations, whereas the Winchelsea compressors are expected to run as winter peak demand units.

5 Analysis

With regard to the information provided, we note:

- The two Winchelsea compressors, being configured to run in series and both capable of bi-directional flow, will be able to operate singularly or together.
- It can be expected that they will operate for a similar number of hours per year, with each sharing the single operation period.
- The hours of operation are expected to increase compared to current operations.

[1] APA VTS 2023-27 access arrangement – Revised proposal: section 15.5

We do not consider using Wollert No 6 compressor as the proxy for the new Winchelsea compressor is appropriate given that the Wollert compressor is a base load compressor unlike the Winchelsea compressor which is for filling the Iona gas storage in summer and peak load supply in winter. We consider using the operating hours and costs of the existing Winchelsea compressor gives a better estimate of the operating hours and costs of the new Winchelsea compressor.

We also note that the recent operating costs for Winchelsea, xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx, apart from 2020, are below the forecast proposed by APA, which had been based on Wollert operating costs. Available information does not suggest that the additional Winchelsea compressor would operate well above current Winchelsea operations to the extent that would justify the APA forecast. We therefore consider APA's proposed operating cost forecast of $250,000 per year, totalling $1.250 million for the next AA period, not to be a prudent or efficient step change in operating costs for the additional compressor at Winchelsea.

We consider that using the operating costs of the existing Winchelsea compressor provides a more reasonable basis for developing an operating cost forecast for the new unit.

xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx

xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx

APA has provided operating costs for Winchelsea covering the four years from 2018 to 2021.

Table 5-1: Winchelsea annual operating costs ($'000)

	2018	2019	2020	2021
Operating cost	145	226	185	207

(Source: IR002: Q3.2 (f))

Based on our analysis we consider that operating costs for 2020 would not be reflective of future costs. We also consider that 2018, being very low is not likely to be representative of future operating costs.

In addition, our analysis of the components of operating expenditure shows that labour (internal and contractor) tends to be the main component that reflects changing levels of operation. While electricity costs are the next most significant component in the overall costs, they do not change materially from year to year. With respect to labour, it is higher in 2019 than it is in 2021 by approximately $35k (and even more for 2018 and 2020). As such we don't consider that the 2019 labour costs are likely to be representative of future years. While other cost components vary from year to year there is generally some similarity.

xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx and the labour costs for 2019 being high and again not reflecting of future operations, we consider that the operating costs for 2021 are the most likely to reflect future operations. It is also the most recent cost and therefore a reasonable forecast of operating costs for the additional compressor.

6 Conclusion and Recommendation

The installation of a second compressor at Winchelsea, along with completion of the WORM project, will enable more gas flow into Port Campbell to fill Iona UGS during summer and shoulder periods and then for increased flow to Melbourne during the winter months and in particular for the peak winter periods.

On the basis of information provided, in particular from APA VTS xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx and as such the forecast operating costs of $250,000 per year for the additional compressor are likely to be higher than for the additional compressor at Winchelsea. On that basis we do not consider the Wollert operating costs as a proxy of the additional Winchelsea compressor operating cost as efficient. We have, therefore, undertaken our analysis based on actual operating costs at Winchelsea.

At Winchelsea, it is anticipated that one compressor would operate on an as required basis during the non-peak periods. For the relatively shorter period both compressors would be operating simultaneously. From our analysis we have concluded that the operating hours could increase to the extent that they are double the hours compared to current operations, which would be equally shared by the two compressors. As such we conclude that the operating costs for the new compressor would reflect typical current costs, which we have estimated to be similar to the costs incurred during 2021, that is $207,000 per year or $1.035 million for the next AA period.