

1. Schedule of Standardisation Cost Charges (“Standardisation Charges”)

Table 1 - OTSA Standardisation Charges (from 1 July 2021)

Service Type	Fixed Charge, \$/month	Tariff, \$/GJ
CTP Compression	750	0.01
DAA Compression	750	0.0100

Note: Variable tariffs are applied to the Buyer's MDQ

Table 2 - OTSA Standardisation Charges (7 October 2019 - 30 June 2021)

Service Type	Fixed Charge, \$/month	Tariff, \$/GJ
CTP Compression	750	0.02
DAA Compression	750	0.0461

Table 3 - OTSA Standardisation Charges (1 March 2019 - 6 October 2019)

Service Type	Fixed Charge, \$/month	Tariff, \$/GJ
CTP Compression	0	0.10
DAA Compression	1000	0.50

Table 4 - Standardisation Costs

Cost category	Function	Cost Description	Upfront Costs (\$'000's, p.a.)	Ongoing Costs (\$'000's, p.a.)
OTSA	Legal	External legal assistance in designing and drafting a standard OTSA, including re-drafts as needed	50	0
Subtotal: OTSA			50	0
Systems & Procedures	Regulatory	External Regulatory services for advice regarding Capacity Trading and the designated Iona Compression Facility (ICF)	23	0
Systems & Procedures	Legal	External legal advice on interpretation and application of amendments to the Rules and new AEMO Procedures (other than directly related to OTSA design/drafting) and assistance with design of systems and processes required to meet CTP and DAA obligations	10	0
Systems & Procedures	Commercial	A portion of time from new headcount allocated to meeting CTP and DAA obligations and managing related systems and procedures	0	10
Systems & Procedures	IT	External IT services for system design and build of an Auction and Capacity Trading interface with the API gateway	56	4.56
Subtotal: Systems and Procedures			119	14.56
Total			139	14.56

Note: Cost figures are ex-GST in 2021\$, and are a combination of actual and estimated costs and are therefore subject to change

2. Standardisation Costs

Lochard has incorporated CTP and DAA processes into its daily business activities. In doing so, Lochard has incurred incremental Upfront Costs and incurs modest Ongoing Costs. Estimates of these Standardisation Costs are captured in Table 4, and include incremental expenses for IT systems, legal support, regulatory support, and commercial operations headcount/resourcing.

Lochard only accounts for Upfront and Ongoing Costs where they would not have otherwise been incurred. In Lochard's case, all legal, regulatory, and IT costs captured were externally contracted as fit-for-purpose services necessary to establish operation of CTP and DAA services. As such, no basis of apportionment was required for the majority of Standardisation Costs, with the exception of a portion of time allocated from new Commercial headcount to managing CTP and DAA obligations. Where apportionment does apply to Lochard's Standardisation Costs, the level of apportionment is reviewed as part of Lochard's annual Standardisation Cost recovery true-up and cost inputs are adjusted as appropriate.

3. OTSA Trading Volume Assumptions

Lochard’s assumptions used for the calculation of Standardisation Cost recovery modelling and the determination of Standardisation Charges are:

- The traded volume of OTSA services are expected to be weighted towards CTP rather than DAA as storage customers seek to monetise strips of underutilised firm capacity.
- One OTSA user from 2022+. The low forecast number of OTSAs is primarily based on:
 - the sizeable contract positions of existing Iona storage customers with marginal discernible demand for standalone compression services; and,
 - the ability of existing Iona storage customers to trade compression rights under Gas Storage Service Agreements at no extra charge.
- A modest amount of CTP transactions are expected from 2024+ as OTSA users grow familiar with the new services and associated risks.
- The average settlement price of DAA services are estimated to be 0 cents/GJ and reflect expectations of no competition from other OTSA users at Iona.

Table 5 - OTSA Trading Volume Assumptions

Year ending (FY)	2022	2023	2024	2025
# OTSA users	1	1	1	1
Avg DAA proceeds, \$/GJ	0	0	0	0
Avg quantity per transaction - CTP, TJ	0	200	200	200
Avg quantity per transaction - DAA, TJ	15	15	15	15
Avg # transactions per user - CTP	0	0	1	1
Avg # transactions per user - DAA	100	100	100	100
Projected OTSA Quantities				
Total quantity - CTP, TJ	0	0	200	200
Total quantity - DAA, TJ	1500	1500	1500	1500

4. Standardisation Charges and cost recovery methodology

In June 2021, Lochard undertook a review of its OTSA assumptions, Standardisation Cost recovery methodology, and Standardisation Charges. Results of the review included:

- no change in total Fixed Standardisation Charges of \$750 per month for CTP and DAA services (each) which reflects equally shared cost recovery between the two capacity platforms; and,
- a further reduction of the variable Standardisation Charge tariffs for CTP and DAA services (in addition to the October 2020 reductions) primarily due to greater estimated use of the auction services and a reduction in expected standardisation costs from 1 July 2021.

Lochard’s current Standardisation Charges were determined in accordance with the following high level approach:

1. Recover Standardisation Costs from OTSA users only once and recover no more than the relevant costs incurred or expected to be incurred
2. Using the estimated number of OTSAs, set reasonable Fixed Standardisation Charges that are:
 - a. sufficient to recoup upfront Standardisation Costs over approximately 4 years in real dollar terms, and
 - b. are broadly consistent with Fixed Standardisation Charges of industry peers
3. Use goal-seeking to determine the variable Standardisation Charges for CTP and DAA services required to recover Ongoing Costs, and ensure that the DAA variable charge reflects the higher daily administrative requirement on a dollar per GJ basis than the CTP variable charge
4. Review costs and forecast assumptions annually and re-set charges to target breakeven

A more detailed, although simplified, numerical representation of the methodology Lochard applies to determine Standardisation Charges is shown in the Table 6 along with explanatory comments.

Table 6 - Determination of Standardisation Charges

Fixed Standardisation Charges	2022	2023	2024	2025	2026	2027
Key Assumptions						
# of OTSA users	1	1	1	1	1	1
Term to Upfront Cost recovery: approx 4 years		-		-	-	Costs fully recovered
Fixed Charges (\$000's)						
Fixed charge per OTSA, per month (1)	1.5	1.5	1.5	1.5	1.5	1.5
Fixed Revenues (\$000's)						
Total Fixed Charge revenue per year	18	18	18	18	18	18
Fixed Costs (\$000's)						
Upfront Costs incurred	0	0	0	0	0	0
Fixed Net Gain/Loss (\$000's)						
Unrecovered Upfront Cost (cumulative)	-103	-85	-67	-49	-31	0
Refund for over recovery of upfront costs (2)	0	0	0	0	0	5
Variable Standardisation Charges						
Key assumptions						
Projected CTP compression services, TJ	0	0	200	200	200	200
Projected DAA compression services, TJ	1500	1500	1500	1500	1500	1500
Average DAA proceeds, \$/GJ	0	0	0	0	0	0
Variable Charges (3)						
CTP compression services, \$/GJ	0.005	0.005	0.005	0.005	0.005	0.000
DAA compression services, \$/GJ	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100
Variable Revenue (DAA Proceeds) (\$000's)						
DAA Proceeds (4)	0	0	0	0	0	0
Variable Costs (\$000's)						
Ongoing Costs incurred	-15	-15	-15	-16	-16	-16
Variable Net Gain/Loss (after DAA Proceeds) (\$000's)						
Unrecovered Ongoing Costs (cumulative) after DAA proceeds	-15	-29	-45	-60	-76	-92
Variable Revenue (Other variable charges) (\$000's)						
CTP Variable Charge revenue	0	0	1	1	1	0
DAA variable Charge revenue	15	15	15	15	15	15
Total Variable Charge revenue (excl DAA Proceeds)	15	15	16	16	16	15
Variable Net Gain/Loss (after all variable revenue) (\$000's)						
Unrecovered Ongoing Costs (cumulative) after DAA Proceeds and other Variable Charge revenue	0	0	-0	-1	-1	-1
Refund for over recovery of Variable Charges (5)	-0	-0	0	0	0	0

Comments

- 1) Monthly Fixed Standardisation Charges are comprised of two charges of \$750 for CTP and DAA services, and are set at a reasonable level and in line with industry peers so as not to impede efficient OTSA trade.
- 2) Fixed Charge revenue is allocated solely to the recovery of upfront Standardisation Costs. This methodology will eventually result in the removal of fixed Standardisation Charges from Lochard's OTSA, following the full recovery of Lochard's upfront Standardisation Costs (in real dollar terms). Lochard will refund any incidental over recovery of fixed charges, for instance, for the months after the upfront Standardisation Costs becomes fully recovered.
- 3) Variable Standardisation Charges are determined by calculating the necessary \$/GJ tariff to recover Ongoing Costs over the next financial year. This requires a forecast of Day Ahead Auction throughput, seen in Table 5.
- 4) Lochard treats DAA proceeds as variable revenue for the purposes of recovering Ongoing Costs, and applies DAA proceeds to cost recovery before applying other variable Standardisation Charge revenue. If, in the future, DAA proceeds consistently exceed the cumulative unrecovered Ongoing Costs, and Lochard considers that this trend is likely to continue, Lochard intends to cease to charge users for CTP and/or DAA variable charges that relate to Standardisation Costs.
- 5) Lochard undertakes an annual true-up to determine if a refund is required for the incidental over recovery of Ongoing Costs, for instance, due to higher than estimated use of OTSA services, or where DAA proceeds sufficiently offset Ongoing Costs in a year. A refund of variable charges will be determined in a fair and equitable manner, taking into account the amount of services used by each OTSA user as a proportion of all OTSA services in a period. Lochard considers that an annual true-up is acceptable in place of a monthly true-up on the basis that Ongoing Costs will be either under-recovered or over-recovered in each month and should balance out over a period of 12 months. If a pattern of over-recovery occurs or the size of over-recovery becomes significant within or after a year, Lochard may review and revise its cost recovery assumptions, methodology, and adjust Standardisation Charges to better match the Ongoing Costs incurred by Lochard.

Notes

- Unless otherwise indicated, all dollar amounts are rounded to the nearest thousand dollars and represent values at year end (financial years)
- Actual future cash flows may require economic discounting in order for Lochard to recover standardisation costs in real dollar terms.