Final decision

Jemena Gas Networks (NSW) access arrangement 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 2 – Capital base

May 2025

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AER reference: AER22005460

Amendment record

Version	Date	Pages
1	14 May 2025	12

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This attachment forms part of our final decision on the access arrangement that will apply to Jemena Gas Networks (NSW) for the 2025–30 access arrangement period. It should be read with all other parts of this final decision.

For some issues that had draft decision attachments, and which were settled at the draft decision stage or required only minor updates, the reasons in the draft decision attachments and, where relevant, in the final decision Overview set out our reasons for our final decision on the issue. In these circumstances, we have not prepared all attachments, and our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

This Final decision includes the following documents:

Overview

Attachment 2 – Capital base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

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2 Capital base

The capital base roll forward accounts for the value of regulated assets in Jemena Gas Networks' (JGN) distribution network in NSW over the access arrangement period. The opening capital base value for a regulatory year within the access arrangement period is rolled forward by indexing it for inflation, adding any conforming capital expenditure (capex), and subtracting depreciation and other possible factors (for example, asset disposals and capital contributions).[1] Following this process, we arrive at a closing value of the capital base at the end of the relevant year. The opening value of the capital base is used to determine the return of capital (regulatory depreciation) and return on capital building blocks.

This attachment sets out our final decision on JGN's opening capital base as at 1 July 2025 for the 2025–30 access arrangement period (period). It also sets out our final decision on JGN's projected capital base for the 2025–30 period.

2.1 Final decision

Opening capital base as at 1 July 2025

Our final decision approves an opening capital base value of $3,846.7 million ($ nominal) as at 1 July 2025 for JGN. This value is $6.4 million (0.2%) lower than the revised proposed value of $3,853.1 million ($ nominal).[2] It reflects our update to the roll forward model (RFM) for actual consumer price index (CPI) for 2024–25. This final decision is also $16.3 million (0.4%) lower than our draft decision opening capital base value of $3,863.0 million ($ nominal).[3]

To determine the opening capital base as at 1 July 2025, we have rolled forward the capital base over the 2020–25 period to arrive at a closing capital base value at 30 June 2025 in accordance with our roll forward model (RFM). This roll forward process includes an adjustment at the end of the 2020–25 period to account for the difference between updated actual 2019–20 capex and the estimate approved in the 2020–25 access arrangement.[4] All other adjustments are applied as part of the final year adjustments at 30 June 2025 to establish the opening capital base value at 1 July 2025.[5]

1 The term 'rolled forward' means the process of carrying over the value of the capital base from one regulatory year to the next.

2 JGN, *JGN - RP - Att 7.6M - Roll Forward Model - 20250115 – Public,* January 2025.

3 This reduction is mainly driven by the update for the actual CPI of 2.42% for 2024–25 in this final decision, which is lower than the estimated rate of 3.00% applied in our draft decision. This resulted in $21.9 million reduction to opening capital base. This reduction is partially offset by JGN's updates to the 2023–24 capex to reflect actual values and 2024–25 capex to reflect latest estimates. These updates have resulted in an increase to the opening capital base value by about $5.7 million compared to the draft decision, all else being equal; AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 2 - Capital base,* November 2024, p. 1.

4 The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2020–25 decision.

5 This includes adjustments for asset reallocations for accelerated depreciation purposes. This is a capital base reallocation and does not affect the total value of the opening capital asset base as at 1 July 2025.

Table 2.1 sets out our final decision on the roll forward of JGN's capital base over the 2020–25 period.

Table 2.1 AER's final decision on JGN's capital base for the 2020–25 period ($ million, nominal)

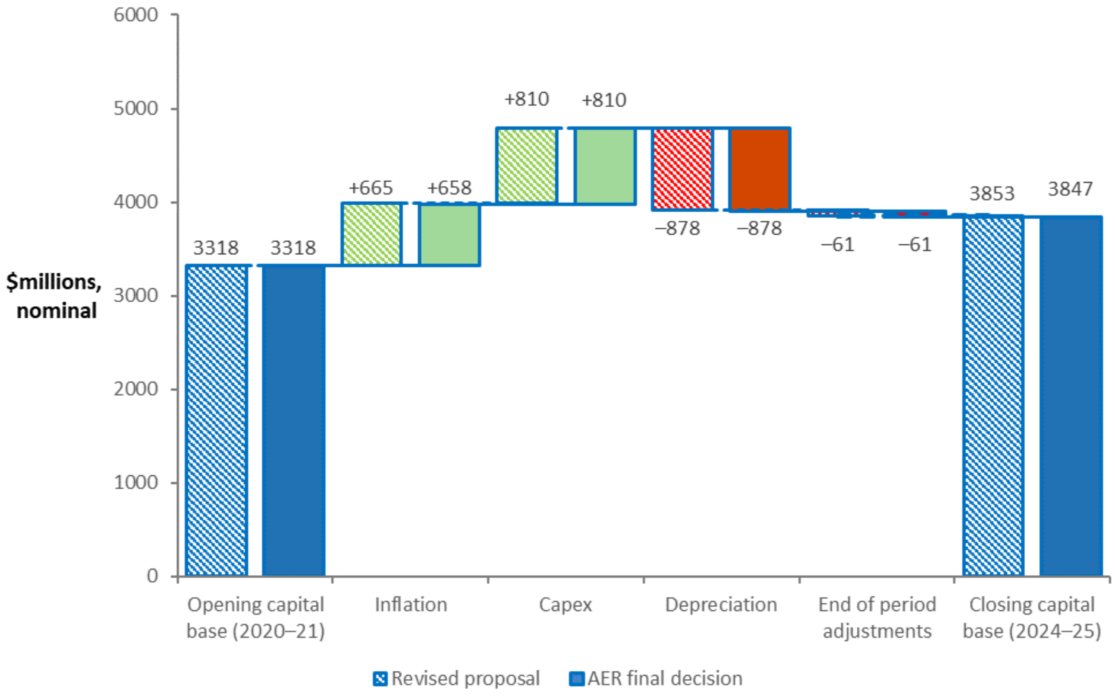
	2020–21	2021–22	2022–23	2023–24	2024–25[a]
Opening capital base	3,318.0	3,354.7	3,452.1	3,696.4	3,800.4
Net capex[b]	156.1	142.1	156.1	153.2	202.1
Inflation on opening capital base	28.6	117.4	270.4	149.8	92.1
Less: straight-line depreciation[c]	148.0	162.1	182.1	199.0	186.9
Interim closing capital base	3,354.7	3,452.1	3,696.4	3,800.4	3,907.8
Difference between estimated and actual capex in 2019–20	-	-	-	-	–45.8
Return on difference for 2019–20 capex	-	-	-	-	–15.2
Closing capital base as at 30 June 2025	-	-	-	-	**3,846.7**

Source: AER analysis.
(a) Based on estimated capex provided by JGN. We will true-up the capital base for actual capex at the next access arrangement review.
(b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
(c) Adjusted for actual CPI. Based on forecast capex.

Figure 2.1 shows the key drivers of the change in the value of JGN's capital base over the 2020-25 period for this final decision. Overall, the closing capital base at the end of the 2020–25 period is estimated to be 15.9% higher than the opening capital base at the start of that period, in nominal terms. The net capex increases the capital base by 24.4%, while inflation indexation increases it by 19.8%. Depreciation,[6] on the other hand, reduces the capital base by 26.5%. End of period adjustments reduce the capital base by 1.8%.

[6] This refers to straight-line depreciation. Regulatory depreciation is straight-line depreciation less the inflation indexation of the capital base.

Figure 2.1 Key drivers of changes in the capital base over the 2020–25 period—JGN's revised proposal compared with AER's final decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

In the draft decision, we reduced JGN's proposed opening capital base as at 1 July 2025 by $7.3 million ($ nominal). This reduction is mainly due to the update we made to the estimated CPI for 2024–25 to reflect more up-to-date economic conditions. We also amended the 2022–23 capex for the 'Existing pigging and inspection costs' asset class, to be consistent with the values reported in the annual reporting Regulatory Information Notice (RIN) for that year.[7]

In addition, our draft decision amended the relevant inputs associated with accelerated depreciation in the RFM to reflect our draft decision on regulatory depreciation.[8] These amendments did not affect the total opening capital base value.[9]

In the draft decision, we noted that the roll forward of JGN's capital base included estimated capex for 2023–24 and 2024–25, and estimated inflation for 2024–25, because the actual values for these inputs were not yet available at the time.[10]

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[7] AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 2 - Capital base,* November 2024, pp. 8–9.

[8] This accelerated depreciation is related to gas demand uncertainty and the risk of asset stranding.

[9] AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 2 - Capital base,* November 2024, p. 9.

[10] AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 2 - Capital base,* November 2024, p. 8.

JGN's revised proposed opening capital base is $3,853.2 million, which is $9.8 million (0.3%) lower than our draft decision.[11] In its revised proposed RFM, JGN adopted most of our draft decision amendments. In addition, JGN updated the following inputs in its revised proposed RFM:

- the estimated capex for 2023–24 with actuals
- the estimated capex for 2024–25 with revised estimates.

These amendments decreased the opening capital base value compared to the draft decision, reflecting more recent data.

In its revised proposed RFM, JGN also amended the final year asset adjustment inputs in the RFM[12], reflecting its revised proposed accelerated depreciation for the 2025–30 period.[13] This amendment to the final year adjustment only changes the reallocation of assets between asset classes and therefore does not affect the total value of the opening capital base as at 1 July 2025.

For this final decision, we have checked the actual capex inputs for 2023–24 in JGN's revised proposed RFM. We are satisfied that these capex inputs reconcile with the values presented in JGN's annual reporting RIN for 2023–24.

We also accept JGN's revised 2024–25 capex estimates of $202.1 million ($ nominal) for this final decision.[14] This is $6.1 million (3.1%) lower than the amount included in the draft decision RFM, reflecting more recent data. We note that the financial impact of any difference between actual and estimated capex for 2024–25 will be accounted for at the next access arrangement review for the 2030–35 period.

We have amended the relevant inputs associated with accelerated depreciation in the RFM, reflecting our final decision on regulatory depreciation. As discussed in Attachment 4, our final decision is to not accept JGN's revised proposed amount of accelerated depreciation. As such, we made changes to the relevant inputs in the RFM to implement our final decision approach on accelerated depreciation. However, these input changes only affect the forecast straight-line depreciation amount for the 2025–30 period, which does not affect the total opening capital base value as at 1 July 2025.[15]

For the reasons discussed in Attachment 5, we are satisfied that JGN's actual capex for 2019–20 and actual capex for 2020–21 to 2023–24 are conforming and should be rolled into

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11 JGN, *JGN - RP - Att 7.6M - Roll Forward Model - 20250115 – Public,* January 2025.

12 This reflects the 'Future of gas MP services' final year asset adjustment value.

13 This accelerated depreciation is related to gas demand uncertainty and the risk of asset stranding.

14 This amount is net of disposals and includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB. It reflects the updated actual inflation rate for 2024–25 in our final decision.

15 This accelerated depreciation is related to asset stranding risk due to gas demand uncertainty. The asset value re-allocation we made to the final year asset adjustment section of the RFM for the purpose of accelerated depreciation does not have an impact on the total opening capital base value as at 1 July 2025. This is because we have re-allocated some asset values from the existing asset classes to the asset classes for accelerated depreciation purposes. As such, the net impact of this re-allocation on the value of the capital base as at 1 July 2025 is zero. Please see Attachment 4 of this final decision for further details.

its capital base.[16] As such, we consider that conforming capex has been properly accounted for in the capital base roll forward, consistent with the requirements of the NGR.[17] As the capex for 2024–25 is currently an estimated value, we will assess whether the actual capex for 2024–25 is conforming and adjust for any differences between actual and estimated capex in the subsequent (2030–35) access arrangement review.[18]

We received no submissions on our approach to calculating the opening capital base. Our position in the final decision is limited to updates for more recent data in the RFM. This includes updating the 2024–25 estimated inflation input of 2.60% with actual CPI of 2.42% based on the December 2024 CPI from the Australian Bureau of Statistics, which became available after JGN submitted its revised proposal.

Forecast closing capital base as at 30 June 2030

We approve a forecast closing capital base value of $4,075.3 million ($ nominal) as at 30 June 2030 for JGN.[19] This is $58.1 million (or 1.4%) lower than the $4,133.5 million ($ nominal) in JGN's revised proposal. This is mainly due to the reduction in forecast capex (Attachment 5) and a lower expected inflation (section 3.2 of the Overview to this final decision) determined in our final decision. This reduction is partly offset by the lower forecast straight-line depreciation determined in our final decision (Attachment 4). Our final decision on the forecast closing capital base reflects our final decisions to the opening capital base as at 1 July 2025, forecast capex (Attachment 5), expected inflation (section 3.2 of the Overview to this final decision) and regulatory depreciation (Attachment 4).

Table 2.2 sets out our final decision on the forecast capital base values for JGN over the 2025–30 period.

Table 2.2 AER's final decision on JGN's capital base for the 2025–30 period ($ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30
Opening capital base	3,846.7	3,940.5	4,013.8	4,062.5	4,080.4
Net capex[a]	188.7	176.1	160.7	138.8	125.6
Inflation on opening capital base	104.6	107.2	109.2	110.5	111.0
Less: straight-line depreciation	199.6	210.0	221.1	231.4	241.7
Closing capital base	**3,940.5**	**4,013.8**	**4,062.5**	**4,080.4**	**4,075.3**

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the post-tax revenue model (PTRM), the capex includes a half-year WACC allowance to compensate for a six-month period before capex is added to the capital base for revenue modelling.

16 Please see section 5.5.1 of Attachment 5 of this final decision for further details.

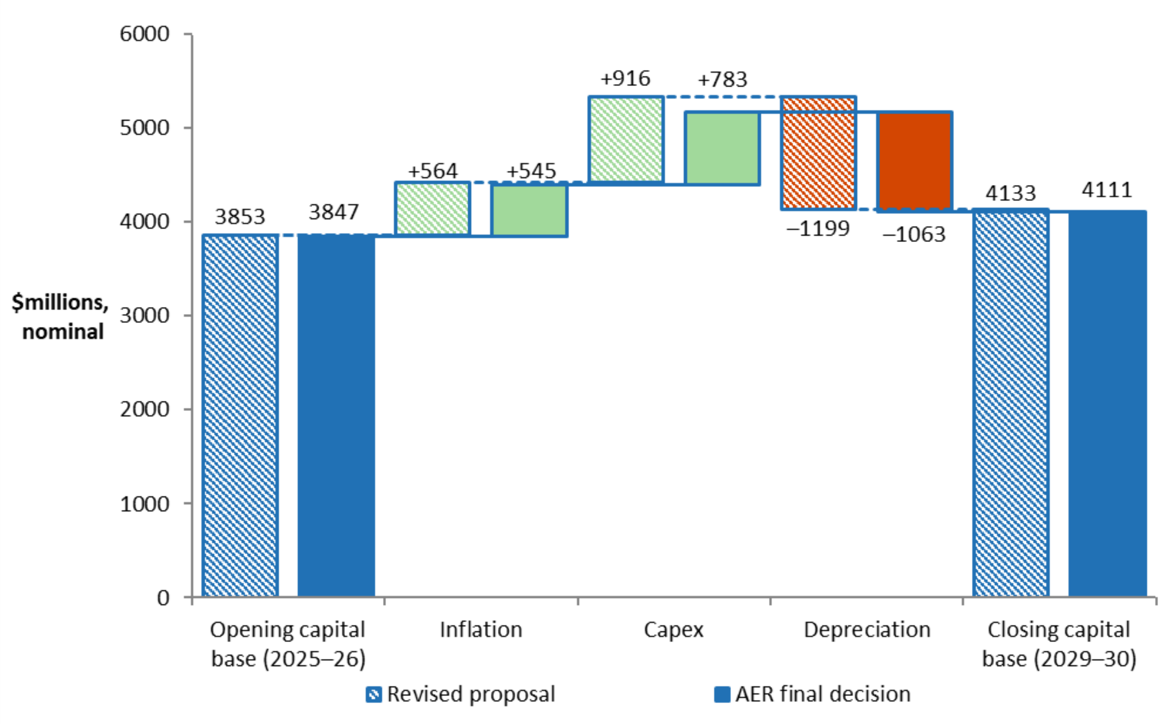
17 National Gas Rules (NGR), rr. 77(2)(b).

18 NGR, rr. 77(2), 79.

19 NGR, r. 78.

Figure 2.2 shows the key drivers of the change in JGN's projected capital base over the 2025–30 period for this final decision. Overall, the closing capital base at the end of the 2025–30 period is forecast to be 5.9% higher than the opening capital base at the start of that period, in nominal terms. The approved forecast net capex increases the capital base by 20.5%, while expected inflation increases it by 14.1%. Forecast depreciation,[20] on the other hand, reduces the capital base by 28.7%.

Figure 2.2 Key drivers of changes in the capital base over the 2025–30 period—JGN's revised proposal compared with AER's final decision ($ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

JGN's revised proposed forecast straight-line depreciation for the 2025–30 period is $1,199.2 million ($ nominal). The depreciation amount largely depends on the proposed level of accelerated depreciation and the opening capital base. The opening capital base, in turn, depends on capex in the past. Depreciation associated with forecast capex is a relatively smaller amount. For this final decision, while we accept JGN's proposal for accelerated depreciation, we have reduced the proposed amount. This is discussed in Attachment 4.

Forecast net capex is a significant driver of the increase in the capital base. In this final decision, we do not accept JGN's revised proposed total net capex for the 2025–30 period of

20 This refers to straight-line depreciation. Regulatory depreciation is straight-line depreciation less the inflation indexation of the capital base.

$915.7 million ($ nominal) and reduced it by $133.0 million (or 14.5%).[21] Our review of JGN's forecast capex is set out in Attachment 5 of this final decision.

For this final decision, we maintain our draft decision position that the opening capital base as at 1 July 2030 is to be established using the approved depreciation schedules (straight–line) based on forecast capex at the asset class level.[22]

2.2 Assessment approach

We have not changed our assessment approach to the capital base from our draft decision. Attachment 2 (section 2.3) of our draft decision details that approach.[23]

2.3 Revisions

We have proposed the following revisions to the access arrangement as set out in Table 2.3.

Table 2.3 Capital base revisions

Revision	Amendment
Revision 2.1	Make all necessary amendments to reflect this final decision on the roll forward of the capital base for the 2020–25 access arrangement period, and to reflect this final decision on the projected capital base for the 2025–30 access arrangement period.

[21] This amount is net of asset disposals and capital contributions, and inclusive of half-year WACC adjustment. It also reflects our final decision on expected inflation and WACC.

[22] NGR, r. 90.

[23] AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 2 - Capital base,* November 2024, pp. 5–8.

Glossary

Term	Definition
AER	Australian Energy Regulator
JGN	Jemena Gas Networks
CPI	Consumer price index
NGR	National Gas Rules
PTRM	Post-tax revenue model
RFM	Roll forward model
RIN	Regulatory Information Notice
WACC	Weighted average cost of capital