



**FINAL DECISION**  
**Multinet Gas**  
**access arrangement**  
**2018 to 2022**

**Attachment 2 – Capital base**

November 2017

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## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
Capex	Capital expenditure
NGR	National Gas Rules
PTRM	Post tax revenue model
RFM	Roll forward model

## 2 Capital base

The capital base roll forward accounts for the value of Multinet's regulated assets over the access arrangement period. The opening value of the capital base 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, disposals or customer contributions).<sup>1</sup> Following this process, we arrive at a closing value of the capital base at the end of each year of the access arrangement period. The opening value of the capital base is used to determine the return of capital (regulatory depreciation) and return on capital building block allowances.

### 2.1 Final decision

Our final decision approves an opening capital base value of \$1192.9 million (\$ nominal) as at 1 January 2018 for Multinet. This amount is \$0.2 million lower than Multinet's revised proposal. This is because we have reduced Multinet's revised proposed actual net capex values in 2016 to account for a movement in capitalised provisions.<sup>2</sup> Therefore, we do not approve Multinet's revised proposed opening capital base as at 1 January 2018.<sup>3</sup>

In the draft decision, we did not approve Multinet's proposed opening capital base as at 1 January 2018.<sup>4</sup> Our draft decision:

- Amended the 2013 opening capital base values for several asset classes to match those approved in the post tax revenue model (PTRM) for the 2013–17 access arrangement decision.
- Amended conforming capex in the 2013–17 access arrangement period for movements in capitalised provisions.
- Amended forecast depreciation inputs used in Multinet's roll forward model (RFM) to match those in the approved PTRM for the 2013–17 access arrangement period.

Our draft decision also accepted Multinet's proposed new fixed principle 7.2(b), based on 7.2(c) from the earlier access arrangement regarding adjustments to be made when establishing the opening capital base for the 2023–27 access arrangement period, subject to the removal of subclause 7.2(b)(3).

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

<sup>2</sup> Multinet, *Email response to IR#30*, received on 22 September 2017. We also re-allocated capex in 2016 from the 'Land' asset class to the 'Other' asset class to be consistent with the annual regulatory reporting accounts. This has no impact on the total value of the opening capital base at 1 January 2018.

<sup>3</sup> NGR, r. 77(2).

<sup>4</sup> AER, *Draft Decision - Multinet Gas Access Arrangement 2018 to 2022 - Attachment 2 - Capital base*, July 2017, pp. 5–6.

Multinet's revised proposal adopted these draft decision amendments in full.<sup>5</sup>

We also noted in the draft decision that the proposed capex for 2016 and 2017 were estimates and that Multinet would provide the actual capex for 2016 in its revised proposal, and that it may revise the 2017 capex estimate based on more up to date information. Multinet's revised proposal provided these updates to the 2016 and 2017 capex.<sup>6</sup> As discussed in attachment 6 we accept Multinet's capex updates in its revised proposal as conforming capex during the 2013–17 access arrangement period. Therefore, we consider that actual conforming capex has been properly accounted for in the revised proposed capital base roll forward, consistent with the requirements of the NGR.<sup>7</sup>

Table 2-1 sets out our final decision on the roll forward of Multinet's capital base during the 2013–17 access arrangement period to determine the opening capital base as at 1 January 2018.

**Table 2-1 AER's final decision on Multinet's capital base roll forward for the 2013–17 access arrangement period (\$ million, nominal)**

	2013	2014	2015	2016	2017
Opening capital base	1055.0	1087.4	1108.7	1135.7	1161.3
Net capex	57.3	53.0	60.1	70.0	81.2
Indexation of capital base	21.1	23.5	25.6	17.1	15.1
Less: straight-line depreciation	46.0	55.3	58.7	61.5	64.7
Closing capital base	1087.4	1108.7	1135.7	1161.3	1192.9
Difference between estimated and actual capex in 2012 <sup>a</sup>					0.0
Return on difference for 2012 capex					n/a
<b>Opening capital base as at 1 January 2018</b>					<b>1192.9</b>

Source: AER analysis.

(a) Actual 2012 capex was able to be included in Multinet's 2013 approved opening capital base as a result of the delayed decision due to the appeal process; therefore no true-up is required in this determination.

We approve a forecast closing capital base value of \$1425.8 million (\$ nominal) at 31 December 2022. This is \$20.5 million (or 1.4 per cent) lower than the \$1446.3 million (\$ nominal) in Multinet's revised proposal. Our final decision on the projected closing

<sup>5</sup> Multinet Gas - *Revised access arrangement information* - 14 August 2017 - public, pp. 8–10.

<sup>6</sup> We identified the Multinet's revised proposal did not adjust 2016 gross capex for movements in capitalised provisions. We also re-allocated capex in 2016 from the 'Land' asset class to the 'Other' asset class to be consistent with the annual regulatory reporting accounts. Following an information request (IR#30), Multinet agreed that the 2016 values should be adjusted. See Multinet response to IR#30, 22 September 2017.

<sup>7</sup> NGR, r. 77(2)(b).

capital base reflects our changes to the opening capital base as at 1 January 2018, and our final decisions on forecast capex (attachment 6), expected inflation and forecast depreciation (attachment 5). Therefore, we do not approve Multinet's revised proposed forecast capital base as at 31 December 2022.<sup>8</sup>

Table 2-2 sets out our final decision on the projected roll forward of the capital base for Multinet over the 2018–22 access arrangement period.

**Table 2-2 AER's final decision on Multinet's projected capital base roll forward for the 2018–22 access arrangement period (\$ million, nominal)**

	2018	2019	2020	2021	2022
Opening capital base	1192.9	1255.9	1303.9	1354.1	1392.0
Net capex	97.1	84.0	89.8	80.4	80.0
Indexation of capital base	29.2	30.8	31.9	33.2	34.1
Less: straight-line depreciation	63.2	66.9	71.4	75.7	80.3
<b>Closing capital base</b>	<b>1255.9</b>	<b>1303.9</b>	<b>1354.1</b>	<b>1392.0</b>	<b>1425.8</b>

Source: AER analysis.

For this final decision, we confirm our position that the capital base as at 1 January 2023 is to be established using the approved depreciation schedules (straight-line) based on forecast capex at the asset class level.<sup>9</sup> This approach is consistent with our draft decision and Multinet's revised proposal.

## 2.2 Assessment approach

Our approach to the capital base is set out in section 2.3 of our draft decision. We have not changed that approach in this final decision.

<sup>8</sup> NGR, r. 78.

<sup>9</sup> NGR, r. 90.