



**FINAL DECISION**  
**AusNet Services**  
**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
NGL	National Gas Law
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 AusNet'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 \$1562.7 million (\$ nominal) as at 1 January 2018 for AusNet. This amount is \$1.2 million lower than AusNet's revised proposal. This is because we have:

- Adjusted 2016 gross capex values for movements in capitalised provisions and updated the values of 2017 customer contributions consistent with revisions provided by AusNet.<sup>2</sup>
- Converted the 2017 gross capex and customer contributions values in the roll forward model (RFM) to mid-year dollar terms from end-of-year dollar terms, as required for use in the input sections of the RFM. AusNet's revised proposed RFM—and subsequent revisions—used these values presented in end-of-year dollar terms, which is consistent with its capex model. As such, an adjustment is required to convert these values to mid-year dollar terms.

Therefore, we do not approve AusNet's revised proposed opening capital base as at 1 January 2018.<sup>3</sup>

In the draft decision, we approved AusNet's proposed opening capital base as at 1 January 2018.<sup>4</sup> We also noted that the proposed capex for 2016 and 2017 were estimates and that AusNet 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.<sup>5</sup> AusNet's revised proposal provided these updates to the 2016 and 2017

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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> AusNet, *Email response 'RE: Current period capex - AusNet Services Gas Distribution'*, received 10 November 2017.

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

<sup>4</sup> AER, *Draft Decision - AusNet Services Gas access arrangement 2018 to 2022 - Attachment 2 - Capital base*, July 2017, p. 2-5.

<sup>5</sup> AER, *Draft Decision - AusNet Services Gas access arrangement 2018 to 2022 - Attachment 2 - Capital base*, July 2017, p. 11.

capex. As discussed in the overview to this final decision, we accept AusNet'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>6</sup>

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

	2013	2014	2015	2016	2017
Opening capital base	1275.3	1339.2	1407.4	1471.0	1510.6
Net capex	86.8	94.1	92.6	83.7	86.5
Indexation of capital base	25.6	28.9	32.5	22.1	19.6
Less: straight-line depreciation	48.5	54.8	61.4	66.2	70.5
Closing capital base	1339.2	1407.4	1471.0	1510.6	1546.3
Difference between estimated and actual capex in 2012					12.1
Return on difference for 2012 capex					4.4
<b>Opening capital base as at 1 January 2018</b>					<b>1562.7</b>

Source: AER analysis.

We approve a forecast closing capital base value of \$1899.2 million (\$ nominal) at 31 December 2022. This is \$3.0 million (or 0.2 per cent) lower than the \$1902.2 million (\$ nominal) in AusNet's revised proposal. Our final decision on the projected closing capital base reflects our changes to the opening capital base as at 1 January 2018, and our final decisions on expected inflation (section 2.3.3 of the overview) and forecast depreciation (attachment 5). Therefore, we do not approve AusNet's revised proposed forecast capital base as at 31 December 2022.<sup>7</sup>

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

<sup>6</sup> NGR, r. 77(2)(b).

<sup>7</sup> NGR, r. 78.

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

	2018	2019	2020	2021	2022
Opening capital base	1562.7	1628.9	1704.9	1777.2	1841.8
Net capex	107.8	107.0	106.1	101.8	99.0
Indexation of capital base	38.3	39.9	41.8	43.5	45.1
Less: straight-line depreciation	79.8	70.9	75.5	80.7	86.7
<b>Closing capital base</b>	<b>1628.9</b>	<b>1704.9</b>	<b>1777.2</b>	<b>1841.8</b>	<b>1899.2</b>

Source: AER analysis.

Our final decision is to approve the provision in AusNet's access arrangement 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>8</sup> AusNet included this provision in its revised proposal in response to our draft decision.<sup>9</sup>

In our draft decision, we also required AusNet to remove a fixed principle in its proposal and AusNet's revised proposal adopted our required amendments.<sup>10</sup>

## 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.

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<sup>8</sup> NGR, r. 90.

<sup>9</sup> AusNet, *Revised Access Arrangement Proposal Appendix 1A: Summary Table of Access Arrangement Revisions* p. 1.

<sup>10</sup> AusNet, *Revised Access Arrangement Proposal Appendix 1A: Summary Table of Access Arrangement Revisions* p. 1. This document indicated that amendments were also made where the term 'Fifth Access Arrangement Period' replaced '2018–22 access arrangement period'. We accept this modification for the purposes of this final decision.