



FINAL DECISION
Australian Gas Networks
Victoria and Albury 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 AGN'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).¹ 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.

AGN's capital bases over the 2013–17 access arrangement period are calculated in separate roll forward models (RFMs) for the Victoria and Albury networks, consistent with its separate 2013–17 access arrangements. For the 2018–22 access arrangement period (in which both networks will be under a single access arrangement) a consolidated model will be used. However, separate data on the capital base of the Albury tariff zone must be maintained, consistent with the direction issued to AGN.²

2.1 Final decision

Our final decision approves an opening capital base value of \$1572.0 million (\$ nominal) as at 1 January 2018 for AGN. This amount is \$0.3 million lower than AGN's revised proposal. This is because we have updated the 2016 gross capex and customer contributions values in the Albury network RFM to be consistent with values from the annual reporting accounts for that year.³ Therefore, we do not approve AGN's revised proposed opening capital base as at 1 January 2018.⁴

In the draft decision, we did not approve AGN's proposed opening capital base as at 1 January 2018.⁵ Our draft decision:

- Amended asset class allocation of 2012 gross capex in both of AGN's proposed RFMs because they did not match the annual reporting accounts for that year.
- Corrected a formula change made by AGN to the AER's standard RFM template for its Victoria network RFM, which resulted in the true-up between actual and estimated capex for 2012 being accounted for twice.

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 AER, *Direction to AGN to consolidate access arrangements for AGN's Victorian and Albury Networks*, 23 March 2016, p. 2.

³ AGN, *Email response to IR#20*, received on 15 September 2017.

⁴ NGR, r. 77(2).

⁵ AER, *Draft Decision - Australian Gas Networks Victoria and Albury Gas Access Arrangement 2018 to 2022 - Attachment 2 - Capital base*, July 2017 pp. 2-5

- Amended the Victoria and Albury RFMs so that the capital base indexation used an all-lagged rather than a partially-lagged approach, consistent with the approach used in previous access arrangements for AGN.

AGN's revised proposal adopted these draft decision amendments in full.⁶

We also noted in the draft decision that the proposed capex for 2016 and 2017 were estimates and that AGN 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. AGN's revised proposal provided these updates to the 2016 and 2017 capex.⁷ As discussed in the overview to this final decision, we accept AGN'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.⁸

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

	2013	2014	2015	2016	2017
Opening capital base	1152.2	1237.0	1331.4	1439.5	1497.0
Net capex	103.0	113.1	128.5	90.9	105.3
Indexation of capital base	23.1	26.7	30.7	21.6	19.4
Less: straight-line depreciation	41.3	45.4	51.1	55.0	58.4
Closing capital base	1237.0	1331.4	1439.5	1497.0	1563.3
Difference between estimated and actual capex in 2012					6.3
Return on difference for 2012 capex					2.4
Opening capital base as at 1 January 2018					1572.0

Source: AER analysis.

We approve a forecast closing capital base value of \$1934.4 million (\$ nominal) at 31 December 2022. This is \$1.6 million lower than the \$1935.9 million (\$ nominal) in

⁶ AGN, *Revised proposal – RFM*, 14 August 2017

⁷ We identified that AGN's revised proposal did not update the 2016 capex values for its Albury network with actuals. Following an information request, AGN agreed that the 2016 capex values should be updated to reflect those contained in the annual reporting accounts for that year. See AGN, *Email Response to IR#20*, 15 September 2017.

⁸ NGR, r. 77(2)(b).

AGN'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 and forecast depreciation (attachment 5). Therefore, we do not approve AGN's revised proposed forecast capital base as at 31 December 2022.⁹

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

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

	2018	2019	2020	2021	2022
Opening capital base	1572.0	1652.1	1747.9	1831.1	1900.7
Net capex	120.0	141.5	137.5	115.7	84.4
Indexation of capital base	38.5	40.5	42.8	44.9	46.6
Less: straight-line depreciation	78.3	86.2	97.2	90.9	97.3
Closing capital base	1652.1	1747.9	1831.1	1900.7	1934.4

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.¹⁰ This approach is consistent with our draft decision and AGN'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.

⁹ NGR, r. 78.

¹⁰ NGR, r. 90.