



**FINAL DECISION
APA VTS Australia
Gas access arrangement
2018 to 2022**

**Attachment 5 – Regulatory
depreciation**

November 2017

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Shortened forms

Shortened form	Extended form
APA	APA VTS Australia (Operations) Pty Ltd and APA VTS Australia (NSW) Pty Ltd
AER	Australian Energy Regulator
capex	capital expenditure
CPI	Consumer price index
NGL	National Gas Law
NGR	National Gas Rules
RFM	Roll forward model

5 Regulatory depreciation

When determining the total revenue for APA, we include an allowance for the depreciation of the projected capital base (otherwise referred to as 'return of capital'). Regulatory depreciation is used to model the nominal asset values over the 2018–22 access arrangement period and the depreciation allowance in the total revenue requirement.¹

5.1 Final decision

Our final decision approves forecast regulatory depreciation of \$84.9 million (\$ nominal) for APA over the 2018–22 access arrangement period. This is \$1.2 million (or 1.5 per cent) higher than APA's revised proposal of \$83.7 million (\$ nominal).² This is because we have:

- reduced APA's opening capital base as at 1 January 2018 (attachment 2)
- updated the remaining asset lives as at 1 January 2018 to reflect our final decision on the roll forward of the opening capital base.
- amended the value of forecast capital expenditure (capex) over the 2018–22 access arrangement period (attachment 6)
- amended the expected inflation rate (attachment 3)

We therefore do not accept APA's revised proposed regulatory depreciation allowance.³ Our final decision on APA's regulatory depreciation allowance for the 2018–22 access arrangement period is set out in Table 5-1.

Table 5-1 AER's final decision on APA's regulatory depreciation allowance for the 2018–22 access arrangement period (\$ million, nominal)

	2018	2019	2020	2021	2022	Total
Straight-line depreciation	36.7	40.8	44.4	49.5	45.0	216.4
Less: indexation on capital base	23.8	25.1	26.6	28.1	28.0	131.5
Regulatory depreciation	12.9	15.7	17.8	21.4	17.0	84.9

Source: AER analysis.

In the draft decision, we accepted APA's proposed method to calculate the regulatory depreciation allowance which is the straight-line depreciation amount less the annual

¹ Regulatory depreciation allowance is the net total of the straight-line depreciation (negative) and the annual inflation indexation (positive) on the projected capital base.

² APA VTS, B1 - Revised proposal post tax revenue model - 20170814 - Public.xlsm, August 2017.

³ NGR, r. 89(1).

inflation indexation on the projected capital base. We also accepted APA's proposed standard asset lives for its asset classes for the 2018–22 access arrangement period, because they were consistent with our approved standard asset lives for the 2013–17 access arrangement period. In accepting APA's proposed weighted average method to calculate the remaining asset lives as at 1 January 2018, we updated the remaining asset lives to reflect the changes in the proposed roll forward model (RFM) which affected the calculations. We noted we would update the remaining asset lives for the final decision due to required revisions for 2016 and 2017 capex estimates.

For this final decision, we have updated the revised proposed remaining asset lives as at 1 January 2018 because we made several changes in the revised proposed RFM. As discussed in attachment 2, these changes are:

- the roll forward of the as-commissioned opening capital base as at 1 January 2018
- indexing the capital base for actual CPI over the 2013–17 access arrangement period
- amendments to revised proposed capex included as conforming capex in the 2013–17 access arrangement period, which contained revisions to the capex estimates for 2016 and 2017.

Table 5-2 sets out our final decision on the standard and remaining asset lives as at 1 January 2018 for APA.

Table 5-2 AER's final decision on APA's standard and remaining asset lives as at 1 January 2018 (years)

	Standard asset life	Remaining asset life
Pipelines	55.0	36.7
Compressors	30.0	22.0
City gates and field regulators	30.0	22.1
Odorant plants	30.0	18.0
Gas quality	10.0	8.5
Other	5.0	4.0
General buildings	60.0	35.4
General land	n/a	n/a

Source: AER analysis.

n/a Not applicable.

5.2 Assessment approach

Our approach to the regulatory depreciation allowance is set out in section 5.3 of our draft decision. We have not changed that approach in this final decision.