FINAL DECISION
Multinet Gas
Access arrangement
2018 to 2022

Attachment 5 – Regulatory depreciation

November 2017

AUSTRALIAN
ENERGY
REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

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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

5 Regulatory depreciation

When determining the total revenue for Multinet, 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 $198.3 million ($ nominal) for Multinet over the 2018–22 access arrangement period. This is $7.3 million (or 3.6 per cent) less than Multinet's revised proposal of $205.7 million ($ nominal). This is because we have:

- Amended Multinet's opening capital base as at 1 January 2018 (attachment 2).
- Not accepted all of Multinet's forecast capital expenditure (capex) for the 2018–22 access arrangement period (attachment 6).
- Reduced accelerated depreciation of mains and services due to revisions to the amount and timing of mains replacement for the 2018–22 access arrangement period. We also increased the remaining asset life for the residual amounts for mains and services from 16 years to 19 years (attachment 6).
- Updated the value of expected inflation for the 2018–22 access arrangement period.
- Amended the post tax revenue model (PTRM) so that the values in the initial capital base depreciation profiles are consistent with those calculated in the depreciation model.

We therefore do not accept Multinet's revised proposed regulatory depreciation allowance.[2] Our final decision on Multinet's regulatory depreciation allowance for the 2018–22 access arrangement period is set out in Table 5-1.

[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] NGR, r. 89(1).

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

	2018	2019	2020	2021	2022	Total
Straight-line depreciation	63.2	66.9	71.4	75.7	80.3	357.6
Less: indexation on capital base	29.2	30.8	31.9	33.2	34.1	159.2
Regulatory depreciation	**34.0**	**36.1**	**39.5**	**42.6**	**46.2**	**198.3**

Source: AER analysis.

In our draft decision, we accepted Multinet's proposed year-by-year tracking real straight-line approach to calculate the regulatory depreciation allowance. However, we identified required changes to certain aspects of the proposed regulatory depreciation allowance, including:

- Amendments to the mains and services asset classes subject to accelerated depreciation, which involved changes to capital base amounts and remaining asset lives, and corrections to errors in Multinet's application of accelerated depreciation.
- An adjustment to Multinet's proposed year-by-year tracking depreciation schedule in the roll forward model (RFM) to account for the forecast depreciation approach applied to rolling forward the capital base over the 2013–17 access arrangement period.
- Changes to standard asset lives for the 'Buildings', 'Meters' and 'Equity raising costs' asset classes.
- Adjustments to other components of Multinet's proposal including the opening capital base, expected inflation and forecast capex for the 2018–22 access arrangement period.

Multinet's revised proposal adopted these draft decision amendments.[3]

Multinet also adopted our draft decision approach to account for the accelerated depreciation of mains and services assets. However, it updated the amount of accelerated depreciation to reflect its revised proposal on forecast capex for mains and services replacement, which we have not accepted.[4] In this final decision we have therefore revised the accelerated depreciation of these assets to reflect our revised (lower) capex forecast.

Table 5-2 sets out our final decision on the standard asset lives for Multinet over the 2018–22 access arrangement period.

3 Multinet, *2018 to 2022 Revised Access Arrangement Information* 14 August 2017, pp.14-15

4 Multinet, *2018 to 2022 Revised Access Arrangement Information* 14 August 2017, pp.14-15

Table 5-2 AER's final decision on Multinet's standard asset lives (years)

Asset class	Standard asset life
Transmission and distribution	50.0
Services	50.0
Cathodic protection	50.0
Supply regs/valve stations	50.0
Meters	15.0
Buildings	50.0
IT	5.0
SCADA	15.0
Other	10.0
Equity raising costs	46.6

Source: AER analysis.

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.