FINAL DECISION
Roma to Brisbane Gas Pipeline Access Arrangement 2017 to 2022

Attachment 5 – Regulatory depreciation

November 2017

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
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CPI	consumer price index
DRP	debt risk premium
ECM	(Opex) Efficiency Carryover Mechanism
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
MRP	market risk premium
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STTM	Short Term Trading Market
TAB	Tax asset base
UAFG	Unaccounted for gas
WACC	weighted average cost of capital
WPI	Wage Price Index

5 Regulatory depreciation

When determining the total revenue for APTPPL for the Roma to Brisbane Pipeline (RBP), we include an allowance for the depreciation of the projected capital base (otherwise referred to as 'return of capital').[1] Regulatory depreciation is used to model the nominal asset values over the 2017–22 access arrangement period and the depreciation allowance in the total revenue requirement.[2]

5.1 Final decision

Our final decision approves forecast regulatory depreciation of $19.9 million ($ nominal) for APTPPL over the 2017–22 access arrangement period. This is $0.6 million (or 2.9 per cent) higher than APTPPL's revised proposal of $19.3 million ($ nominal). This is because we have:

- updated our forecast of expected inflation over the 2017–22 access arrangement period (attachment 3)
- amended APTPPL's opening capital base as at 1 July 2017 to update conforming capex for the value of capital contributions in 2013–14 (attachment 2)
- updated the remaining asset life as at 1 July 2017 for the 'Original pipeline (DN250)' asset class to reflect our final decision on the roll forward of the opening capital base.[3]

We therefore do not accept APTPPL's revised proposed regulatory depreciation allowance.[4] Our final decision on APTPPL's regulatory depreciation allowance for the 2017–22 access arrangement period is set out in Table 5-1.

Table 5-1 AER's final decision on APTPPL's regulatory depreciation allowance for the 2017–22 access arrangement period ($million, nominal)

	2017–18	2018–19	2019–20	2020–21	2021–22	Total
Straight-line depreciation	16.7	18.1	18.8	13.0	11.1	77.7
Less: indexation on capital base	11.0	11.5	11.7	11.7	11.9	57.8
Regulatory depreciation	**5.8**	**6.6**	**7.1**	**1.2**	**–0.8**	**19.9**

Source: AER analysis.

1 NGR, r. 76(b).

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

3 We updated to the roll forward of the opening capital base to remove the value of capital contributions of $0.1 million from the 'Original pipeline (DN250)' asset class in 2013–14. This reduces the weighting of capex in the calculation of the weighted average remaining life for this asset class. Our adjustment reduces the remaining asset life for the 'Original pipeline (DN250) asset class to 35.81 years from 35.84 years.

4 NGR, r. 89(1).

In the draft decision, we did not accept APTPPL's proposal and identified changes in respect of certain aspects of the regulatory depreciation allowance:

- The creation of a 'Redundant compressors' asset class to accelerate the depreciation of the residual value of the compressors APTPPL identified as redundant in the 2017–22 access arrangement period.[5]
- Updating of remaining asset lives to reflect amendments to several inputs to the RFM, including the amount of conforming net capex over the 2012–17 access arrangement period.[6]

APTPPL's revised proposal adopted our approach to create a separate asset class to quarantine the residual value of compressors that were identified as redundant to be fully depreciated in the 2017–22 access arrangement period.[7] However, APPTPL did not adopt our identified changes on conforming capex over the 2012–17 access arrangement period and provided revised remaining asset lives at 1 July 2017.

For this final decision and as set out in Table 5-2:

- We confirm our approval of APTPPL’s revised proposed asset classes and the standard asset lives assigned to each of its asset classes for the 2017–22 access arrangement period. This is because they are consistent with the approved standard asset lives for the 2012–17 access arrangement period. They are also broadly comparable with the standard asset lives approved in our recent decisions for other gas transmission service providers.[8]
- We confirm our acceptance of APTPPL’s proposed weighted average method to calculate the remaining asset lives as at 1 July 2017. Our update to APTPPL's opening capital base results in a minor revision to the remaining asset life for the 'Original pipeline (DN250)' asset class.[9] No other updates were required for APTPPL's revised proposed remaining asset lives.

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[5] AER, Draft decision, *Attachment 5 – Regulatory Depreciation*, July 2017, p.15.

[6] AER, Draft decision, *Attachment 5 – Regulatory Depreciation*, July 2017, p.15.

[7] APTPPL, *RBP Revised Access Arrangement Submission*, August 2017, p. 36.

[8] For example, *AER: Access arrangement final decision APA GasNet Australia (Operations) Pty Ltd 2013–17 Part 2: Attachments,* March 2013, p. 149*;* AER: *Final decision Amadeus Gas Pipeline access arrangement attachment 5 — Regulatory depreciation,* May 2016, p. 9.

[9] Our final decision on APTPPL' capital base corrected for an amount of capital contributions included in APTPPL's revised proposed conforming capex during the 2012–17 access arrangement period. This adjustment to reduce capex results in a re-weighting of capex in the calculation of the weighted average remaining life as at 30 June 2017.

Table 5-2 AER's final decision on APTPPL's standard and remaining asset lives as at 1 July 2017 (years)

Asset class	Standard asset life	Remaining asset life as at 1 July 2017
Original pipeline (DN250)	n/a	35.8
Pipelines	80	65.4
Compressors	35	30.0
Regulators and meters	40	34.5
Easements	n/a	n/a
Communications	15	5.0
Other	5	n/a
Capitalised AA costs	5	4.9
Group IT	5	3.6
SIB capex	5	3.3
PMA	n/a	3.0
Redundant compressors[a]	n/a	2.9

Source: AER analysis.

n/a Not applicable.

a. The purpose of this asset class is to fully depreciate the residual value of the redundant compressors over the 2017–22 access arrangement period. We did not assign a standard asset life to this asset class because no new capex will be allocated to this asset class for the 2017–22 access arrangement period.

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.