

Draft Decision

**APA Victorian Transmission System
(VTS)**

Access Arrangement 2023 to 2027
(1 January 2023 to 31 December 2027)

Attachment 2
Capital Base

June 2022

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Tel: 1300 585 165

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Note

This attachment forms part of the AER’s draft decision on the access arrangement that will apply to APA’s Victorian Transmission System (VTS) for the 2023–27 access arrangement period. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Operating expenditure incentive mechanism

Attachment 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

Attachment 11 – Non-tariff components

Attachment 12 – Demand

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2 Capital base

The capital base roll forward accounts for the value of regulated assets in APA’s Victorian Transmission System (VTS) over the access arrangement period. The opening capital base value 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).¹ Following this process, we arrive at a closing value of the capital base at the end of the relevant year. The opening value of the capital base is used to determine the return of capital (regulatory depreciation) and return on capital building blocks.

This attachment sets out our draft decision on APA’s opening capital base as at 1 January 2023 for the 2023–27 access arrangement period (2023–27 period). It also sets out our draft decision on APA’s projected capital base for the 2023–27 period.

2.1 Draft decision

Our draft decision accepts APA’s proposal to calculate the opening capital base as at 1 January 2023 using our roll forward model (RFM). The key inputs to the RFM for the calculation of the opening capital base includes actual and estimated inflation, and capex values for the 2018–22 period. There has been a material increase in inflation rates since APA submitted its proposal. In particular, the 2021 actual inflation is 3.5% compared to 2.0% proposed by APA,² while the latest 2022 estimated inflation is 6.0% compared to 2.0% proposed by APA.³ When the RFM applies these higher inflation rates to index the capital base over the 2018–22 period, it results in a \$60 million increase to the value of the opening capital base at 1 January 2023.⁴ We also amended the proposed estimated value for 2022 capex based on our capex assessment. This change resulted in around \$35 million increase to the value of the opening capital base.⁵ As a result, for this draft decision, we determine an opening capital base value of \$1226.2 million (\$ nominal) as at 1 January 2023.⁶ This value is \$93.9 million (or 8.3%) higher than APA’s proposed opening capital base of \$1132.3 million (\$nominal) as at 1 January 2023.

To determine the opening capital base as at 1 January 2023, we have rolled forward the capital base over the 2018–22 period to determine a closing capital base value at 31 December 2022, in accordance with our RFM.⁷ This roll forward includes an adjustment at

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 ABS, *Consumer Price Index, Australia, Reference period December 2021*, January 2022.

³ RBA, *Statement on Monetary Policy*, May 2022, p. 60.

⁴ Other than the updates to the inflation rates our draft decision also made changes to other inputs to the RFM. These changes have a more moderate impact on the value of the capital base. Please see section 2.4.1 for details.

⁵ Our capex assessment updated the proposed estimated 2022 capex value to \$159 million from \$124 million. Please see section 5.1.2 of attachment 5 of this draft decision for details.

⁶ Measured on an as-incurred basis. The opening capital base on an as-commissioned basis is \$977.4 million as at 1 January 2023.

⁷ AER, *Gas transmission network service providers: Roll forward model (version 1.1)*, May 2022.

the end of the 2018–22 period to account for the difference between updated actual 2017 capex and the amount approved in our 2018–22 decision.⁸

Table 2.1 summarises our draft decision on the roll forward of APA’s capital base during the 2018–22 period.

Table 2.1 AER’s draft decision on APA’s capital base roll forward for the 2018–22 period (\$ million, nominal)

	2018	2019	2020	2021	2022 ^a
Opening capital base	971.1	976.3	998.4	996.2	1045.2
Net capex ^b	24.4	44.4	32.8	62.0	165.8
Indexation of capital base ^c	17.3	18.0	8.6	34.9	62.7
<i>Less: straight-line depreciation^d</i>	36.5	40.3	43.6	47.8	44.0
Interim closing capital base	976.3	998.4	996.2	1045.2	1229.8
Difference between estimated and actual capex in 2017					–2.7
Return on difference for 2017 capex					–0.9
Closing capital base as at 31 December 2022					1226.2

Source: AER analysis.

- (a) Based on estimated capex provided by APA. We expect to update the capital base roll forward with a revised capex estimate in the final decision, and true-up the capital base for actual capex at the next access arrangement review.
- (b) As-incurred, net of disposals, and adjusted for actual CPI and half-year WACC.
- (c) We may update the capital base roll forward for a revised estimate of CPI for 2022 in the final decision.
- (d) Adjusted for actual CPI. Based on forecast as-commissioned capex.

We determine a projected closing capital base for APA of \$1344.2 million (\$ nominal) as at 31 December 2027, which is \$45.7 million (3.5%) higher than APA’s proposed closing capital base of \$1298.5 million.⁹ Our draft decision on the forecast closing capital base value reflects our draft decision on the expected inflation rate (Attachment 3), forecast depreciation (Attachment 4) and forecast capex (Attachment 5).¹⁰

Our draft decision is to establish the opening capital base as at 1 January 2028 using the approved depreciation schedules based on forecast capex over the 2023–27 period, consistent with the our decision for the 2018–22 period. These depreciation schedules will be adjusted for actual inflation outcomes over this period.

Table 2.2 sets out the projected roll forward of the capital base during the 2023–27 period.

⁸ The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2018–22 decision.

⁹ APA VTS, 2023–27 Access Arrangement - Roll forward model, December 2021.

¹⁰ Capex enters the capital base net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our draft decision on the forecast capital base also reflects our amendments to the rate of return for the 2023–27 access arrangement period (attachment 5).

Table 2.2 AER’s draft decision on APA’s projected capital base roll forward for the 2023–27 period (\$ million, nominal)

	2023	2024	2025	2026	2027
Opening capital base	1226.2	1317.4	1337.6	1339.3	1337.2
Net capex ^a	103.1	37.6	22.4	16.1	20.4
Indexation of capital base	35.2	37.9	38.5	38.5	38.4
<i>Less: straight-line depreciation^b</i>	47.2	55.3	59.1	56.8	51.8
Closing capital base	1317.4	1337.6	1339.3	1337.2	1344.2

Source: AER analysis.

- (a) As-incurred, and net of forecast disposals. In accordance with the timing assumptions of the post-tax revenue model (PTRM), the capex includes a half-year WACC to compensate for the six month period before capex is added to the capital base for revenue modelling.
- (b) Based on as-commissioned capex.

2.2 APA’s proposal

APA proposed an opening capital base of \$971.1 million (\$ nominal) as at 1 January 2018. Rolling forward this capital base and using depreciation based on forecast capex approved for the 2018–22 period, APA proposed a closing capital base of \$1132.3 million (\$nominal) as at 31 December 2022.¹¹ It has done so by adding actual net capex, removing approved forecast depreciation and adding inflation indexation on the opening capital base in each year of the 2018–22 period.

APA’s proposed capital base roll forward during the 2018–22 period is shown in Table 2.3.

¹¹ APA, VTS 2023–27 Access Arrangement - Roll forward model, December 2021.

Table 2.3 APA’s proposed capital base roll forward during the 2018–22 period (\$ million, nominal)

	2018	2019	2020	2021 ^a	2022 ^b
Opening capital base	971.1	976.3	998.4	996.2	1034.2
Net capex ^c	24.4	44.4	32.8	65.8	124.0
Indexation of capital base ^d	17.3	18.0	8.6	19.9	20.7
<i>Less: straight-line depreciation^e</i>	36.5	40.3	43.6	47.8	43.3
Interim closing capital base	976.3	998.4	996.2	1034.2	1135.5
Difference between estimated and actual capex in 2017					-2.7
Return on difference for 2017 capex					-0.5
Closing capital base as at 31 December 2022					1132.3

Source: APA, *VTS 2023–27 Access Arrangement - Roll forward model*, December 2021.

- (a) Based on estimated capex.
- (b) Based on estimated capex.
- (c) As-incurred, net of disposals, and adjusted for actual CPI and half-year WACC.
- (d) Based on actual CPI for 2018–2021 and estimated CPI for 2022.
- (e) Adjusted for actual CPI. Based on forecast as-commissioned capex.

APA proposed a projected closing capital base of \$1298.5 million (\$ nominal) as at 30 December 2027. This value reflects its proposed opening capital base, forecast capex, expected inflation, and forecast depreciation over the 2023–27 period.¹²

APA proposed to create a new ‘WORM’ asset class for recording capex for the Western Outer Ring Main project and for regulatory depreciation purposes (Attachment 4). APA recorded 2 years of as incurred capex under this new asset class in its proposed RFM.

The projected roll forward of the capital base during the 2023–27 period is shown in Table 2.4.

¹² APA, *VTS 2023–27 Access Arrangement - Roll forward model*, December 2021.

Table 2.4 APA’s proposed projected capital base roll forward during the 2023–27 period (\$ million, nominal)

	2023	2024	2025	2026	2027
Opening capital base	1132.3	1242.1	1322.4	1330.6	1315.1
Net capex ^a	134.7	116.5	53.1	35.1	32.0
Inflation indexation on opening capital base	22.6	24.8	26.4	26.6	26.3
Less: straight-line depreciation ^b	47.6	61.0	71.3	77.3	74.9
Closing capital base	1242.1	1322.4	1330.6	1315.1	1298.5

Source: APA, VTS 2023–27 Access Arrangement - Post tax revenue model, December 2021.

- (a) As-incurred, and net of forecast disposals. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC to compensate for the six month period before capex is added to the capital base for revenue modelling.
- (b) Based on as-commissioned capex.

2.3 Assessment approach

Our approach to assessing APA’s projected capital base is consistent with that adopted in previous gas access arrangement decisions made under the National Gas Rules (NGR).¹³ To determine the opening capital base, we developed a capital base RFM that the service provider must use in preparing its proposal.¹⁴ In accordance with rules 77(2) and 78 of the NGR, we applied three steps to calculate the projected capital base:

- First, we confirm the value of the opening capital base for the first year of the 2018–22 period (in this case, 1 January 2018). This includes making an adjustment to account for any difference between actual and estimated capex in the final year of the previous period (in this case, 2017). This adjustment is made at the end of the 2018–22 period, and must also remove any benefit or penalty associated with any difference between the estimated and actual capex for that year.¹⁵
- Second, the opening capital base as at 1 January 2018 is rolled forward to determine the closing capital base as at 31 December 2022. This closing capital base is also used as the value of the opening capital base for the 2023–28 period as at 1 January 2023. This involves:¹⁶
 - adding conforming actual capex for each year – this requires assessing the capex and determining that it is consistent with the provisions of the 2018–22 access arrangement and data from historical regulatory information notices (RINs), as well as the definition of 'conforming capital expenditure' in the NGR¹⁷

¹³ For example, AER, *Final decision: APA VTS Australia access arrangement 2018–22*, November 2017; AER, *Final decision: AusNet Services access arrangement 2018–22*, November 2017; AER, *Final decision: Multinet gas access arrangement 2018–22*, November 2017; AER, *Roma to Brisbane Gas Pipeline access arrangement 2017–22*, November 2017; AER, *Australian Gas Networks Victoria and Albury access arrangement 2018–22*, November 2017; AER, *Final decision: Jemena Gas Networks (NSW) access arrangement 2020–25*, June 2020; AER, *Final decision: Australian Gas Networks (SA) access arrangement 2021–26*, April 2021; AER, *Final decision: Evoenergy access arrangement 2021–26*, April 2021; AER, *Final decision: Amadeus Gas Pipeline access arrangement 2021–26*, April 2021.

¹⁴ NGR, rr. 72(3) and 75A(2).

¹⁵ NGR, r. 77(2)(a).

¹⁶ NGR, r. 77(2).

¹⁷ NGR, r. 79(1).

- removing depreciation for each year based on the approach approved for the 2018–22 period¹⁸
 - adding any speculative capex or previously redundant assets that will be reused during the 2023–27 period
 - removing any redundant assets and disposals during the 2018–22 period
 - indexing the roll forward each year for actual inflation.
- Third, the capital base is projected over the 2023–27 period by rolling forward the opening capital base as at 1 January 2023 to 31 December 2027. This involves performing the following on the opening capital base:¹⁹
 - adding forecast conforming capex for each year (net of any forecast capital contributions)
 - removing forecast depreciation for each year
 - removing the forecast value of assets to be disposed of during the 2023–27 period
 - indexing the capital base of the roll forward each year for expected inflation.

2.3.1 Interrelationships

The size of the capital base substantially impacts the service provider's revenue and the price consumers pay. It is an input into the determination of the return on capital and depreciation (return of capital) building blocks.²⁰ Factors that influence the capital base will therefore flow through to these building block components and the annual building block revenue requirement. Other things being equal, a higher capital base increases both the return on capital and depreciation amounts. In turn, it increases the service provider's revenue, and prices for its services.

The capital base is determined by various factors, including;

- the opening capital base (meaning the value of existing assets at the beginning of the access arrangement period)
- net capex²¹
- depreciation
- indexation adjustment – so the capital base is presented in nominal terms, consistent with the rate of return.

The opening capital base depends on the value of existing assets as well as actual conforming net capex, actual inflation outcomes and depreciation in the past.

The capital base when projected to the end of the access arrangement period may increase due to forecast new capex and the indexation adjustment. The size of the indexation

¹⁸ In this case, forecast depreciation approach as approved for APA in the 2018–22 access arrangement period.

¹⁹ NGR, r. 78.

²⁰ The size of the capital base also impacts the benchmark debt raising cost. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

²¹ Net capex is gross capex less disposals and capital contributions.

adjustment depends on expected inflation (which also affects the nominal rate of return or WACC) and the size of the capital base at the start of each year throughout the access arrangement period.

Depreciation reduces the capital base. The depreciation amount depends on the size of the opening capital base, the forecast net capex and the depreciation schedules applied to the assets.

We maintain the capital base in real terms by indexing for inflation. A nominal rate of return WACC is multiplied by the opening capital base to produce the return on capital building block.²² To prevent double counting of inflation through the nominal WACC and indexed capital base, the regulatory depreciation building block has an offsetting reduction for indexation of the capital base.²³ Indexation of the capital base and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the capital base was un-indexed. The implications of our approach to indexing the value of the capital base on revenues are discussed further in Attachment 4.

Figure 2.1 shows the key drivers of the change in the capital base over the 2023–27 period as proposed by APA. Overall, the closing capital base at the end of the 2023–27 period would be 14.7% higher than the opening capital base at the start of that period based on the proposal, in nominal terms.²⁴ The proposed forecast net capex increases the capital base by about 32.8%, while expected inflation increases it by about 11.2%. Forecast depreciation, on the other hand, reduces the capital base by about 29.3%. APA proposed forecast straight-line depreciation for the 2023–27 period is \$332.1 million (\$ nominal). The depreciation amount largely depends on the proposed level of accelerated depreciation and the opening capital base, which in turn depends on capex in the past.²⁵ Depreciation associated with forecast capex is a relatively smaller amount. For this draft decision, we are not satisfied with APA's proposal for accelerated depreciation and this is discussed in Attachment 4.

Further, we have concerns with the size of the forecast capex proposed by APA. It is the largest driver of the increase in the RAB over the 2023–27 regulatory control period. In this draft decision, we have reduced APA's proposed forecast capex by \$165.7 million (\$2022), or 47.1% over the 2023–27 period.²⁶ Our review of APA's forecast capex is set out in attachment 5 of this draft decision.

A 10 per cent increase in the opening capital base causes revenues to increase by about 5.3% (\$ nominal). However, the impact of the annual change in capital base on revenues

²² NGR, r. 87.

²³ If the asset lives are extremely long, such that the capital base depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the capital base depreciation in such circumstances. Please also refer to section 4.3.1 of Attachment 4 of this draft decision for further explanation of the offsetting adjustment to the depreciation.

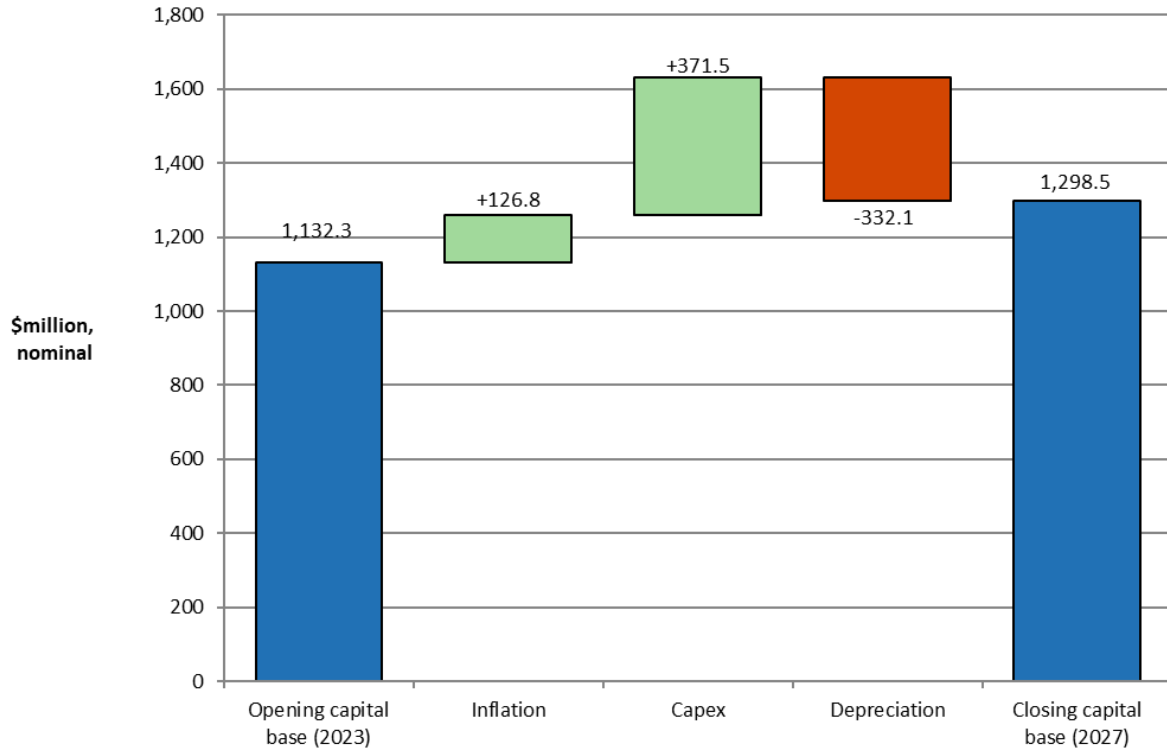
²⁴ In real terms, the capital base would decrease by 2.2% over the 2023–27 period.

²⁵ At the time of this draft decision, the roll forward of APA's capital base includes estimated capex values for 2022. We expect to update the 2022 estimated capex with a revised estimate in the final decision.

²⁶ This amount is net of asset disposals and excludes half-year WACC adjustment.

depends on the source of the capital base change, as some drivers affect more than one building block cost.²⁷

Figure 2.1 Key drivers of changes in the capital base proposed by APA (\$ million, nominal)



Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Source: APA, *VTS 2023–27 Access Arrangement - Post tax revenue model*, December 2021.

2.4 Reasons for the draft decision

We accept APA’s proposal to calculate the opening capital base as at 1 January 2023 using our RFM. The key inputs to the RFM for the calculation of the opening capital base include actual and estimated inflation, and capex values for the 2018–22 period. There has been a material increase in inflation rates since APA submitted its proposal. In particular, the 2021 actual inflation is 3.5% compared to 2.0% proposed by APA,²⁸ while the latest 2022 estimated inflation is 6.0% compared to 2.0% proposed by APA.²⁹ When the RFM applies these higher inflation rates to index the capital base over the 2018–22 period, it results in a \$60 million increase to the value of the opening capital base at 1 January 2023. We also amended the proposed estimated value for 2022 capex based on our capex assessment. This change resulted in around \$35 million increase to the value of the opening capital base. As a result, for this draft decision, we determine an opening capital base value of

²⁷ If capex causes the capital base to increase—return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the capital base to increase, revenue could increase or decrease. In the latter case, the higher return on capital is offset (perhaps more than offset) by the reduction in the depreciation amount. Inflation naturally increases the capital base in nominal terms.

²⁸ ABS, *Consumer Price Index, Australia, Reference period December 2021*, January 2022

²⁹ RBA, *Statement on Monetary Policy*, May 2022, p. 60.

\$1226.2 million (\$ nominal) as at 1 January 2023.³⁰ This value is \$93.9 million (or 8.3%) higher than APA’s proposed opening capital base of \$1132.3 million (\$nominal) as at 1 January 2023. We forecast a closing capital base value of \$1344.2 million by 31 December 2027. This represents an increase of \$45.7 million (3.5 %) compared to APA’s proposal. This results from our draft decision on the inputs used to determine the projected capital base in the PTRM. We are satisfied the amendments are necessary having regard to the requirements of the NGR.

The reasons for our decision are discussed below.

2.4.1 Roll forward of capital base during the 2017–22 period

APA has established the opening capital base as at 1 January 2023 using our RFM. Therefore, we reviewed the key inputs of APA’s proposed RFM such as actual inflation, rate of return, gross capex values, forecast depreciation amounts and asset lives. We found these inputs were generally correct and reconciled with relevant data sources such as Australian Bureau of Statistics data, RINs and the 2018–22 decision models.³¹ However, we identified some of the proposed inputs for 2017 actual capex and WACC values required corrections. We also consider some of APA’s proposed RFM inputs require updating with newly available data.

Therefore, we have made the following revisions to APA’s proposed RFM inputs:

- Amended the value of 2017 actual CPI rate used for the capital base remaining lives calculations to 1.91% from 2.00%. This change has a very minor impact on the calculated capital base remaining lives. In its response to our information request, APA agreed with this amendment.³²
- Amended the 2017 as-commissioned capex for the ‘Other’ asset class to be consistent with the value reported in the annual RIN for that year. This amendment increases the opening capital base on an as-incurred basis at 1 January 2023 by less than \$0.1 million. In its response to our information request, APA agreed with this amendment.³³
- Amended the proposed estimated value for 2022 capex based on our capex assessment. This amendment increases the opening capital base on an as-incurred basis by around \$35 million.³⁴
- Re-allocated the 2021 and 2022 as-incurred capex associated with the WORM project to existing asset classes approved for the 2018–22 period. This is because the WORM project is approved in the 2018–22 access arrangement, therefore the historical capex can be allocated to existing ‘Pipelines’, ‘Compressor’, ‘City gates and Field regulators’, ‘Land’ and ‘Buildings’ asset classes.³⁵

³⁰ Measured on an as-incurred basis. The opening capital base on an as-commissioned basis is \$977.4 million as at 1 January 2023.

³¹ At the time of this draft decision, the roll forward of APA’s capital base includes estimated capex values for 2022. We may update the 2022 estimated capex with a revised estimate in the final decision.

³² APA VTS, *email response to AER Information request #003*, 20 January 2022.

³³ APA VTS, *email response to AER Information request #003*, 20 January 2022.

³⁴ Our capex assessment updated the proposed estimated 2022 capex value to \$159 million from \$124 million. Please see section 5.1.2 of attachment 5 of this draft decision for details.

³⁵ Please see section 4.4.2 of attachment 4 of this draft decision for details.

- Updated inputs to the RFM as newer information has become available since APA submitted its proposal. These updates include replacing:
 - the proposed estimated value for 2021 capex with the actual 2021 capex sourced from the annual RIN for that year. This update reduced the opening capital base on an as-incurred basis by around \$4 million
 - the proposed estimated value for 2021 CPI rate of 2.0% with the actual 2021 CPI rate of 3.5%. This update increases the opening capital base on an as-incurred basis by around \$15 million
 - the proposed estimated value for 2022 CPI rate of 2.0% with the latest estimate of 6.0% from the May 2022 *Statement on Monetary Policy* released by the RBA.³⁶ This update increases the opening capital base on an as-incurred basis by around \$45 million the value of the 2022 nominal vanilla WACC to be consistent with the approved 2022 return on debt update for the 2018–22 PTRM. This update increases the opening capital base on an as-incurred basis by around \$3 million. In its response to our information request, APA agreed with this amendment.³⁷

Our draft decision relabels the existing ‘Other’ asset class approved for the 2018–22 period to ‘Other – short life’ for the 2023–27 period. We also create a new ‘Other – long life’ asset class for depreciating assets allocated to this class. These changes better distinguish the different asset lives assigned to the two classes for allocating other assets and do not affect the total value of the opening capital base at 1 January 2023.³⁸

Conforming capital expenditure in the 2018–22 period

Our assessment of conforming capex is set out in Attachment 5. In determining APA’s opening capital base as at 1 January 2023, we assessed whether its proposed capex amounts for the 2018–22 period are properly accounted for in the capital base roll forward.

We accept APA’s proposed actual capex for 2018–2020 as conforming capex during the 2018–22 period.³⁹ We note that the proposed capex for 2021 and 2022 are estimates. Our draft decision is to replace the 2021 estimated capex with the actual 2021 capex sourced from the annual RIN for that year, and updated the estimated value of 2022 capex based on our capex assessment.⁴⁰ We note that the 2022 capex estimate may be revised based on more up to date information. We will review the revised estimate for the 2022 capex in our final decision conforming capex assessment. With the amendments to the 2021 and 2022 capex, we accept that actual conforming capex has been properly accounted for in the proposed capital base roll forward consistent with the requirements of the NGR.⁴¹

2.4.2 Projected capital base during the 2023–27 period

We forecast a closing capital base of \$1344.2 million (\$ nominal) as at 31 December 2027 for APA, which represents an increase of \$45.7 million (3.5%) compared to APA’s proposed

³⁶ RBA, *Statement on Monetary Policy*, May 2022, p. 60.

³⁷ APA VTS, *email response to AER Information request #003*, 20 January 2022.

³⁸ This is discussed further in section 4.4.2 of attachment 4 of this draft decision.

³⁹ Please see section 5.1 of attachment 5 of this draft decision for details.

⁴⁰ Please see section 5.1.2 of attachment 5 of this draft decision for details.

⁴¹ NGR, r. 77(2)(b).

amount of \$1298.5 million. This results from our draft decision on the inputs for determining the projected capital base in the PTRM. We have amended the inputs in the following ways:

- We increased the opening capital base as at 1 January 2023 by \$93.9 million or 8.3%.⁴²
- We updated APA’s proposed expected inflation rate of 2.00% per annum for the 2023–27 period to 2.87% per annum (Attachment 3). Compared to the proposal, our draft decision results in an increase to the indexation of the capital base component for the 2023–27 period by \$61.7 million (\$ nominal) or 48.7%.⁴³
- We reduced APA’s proposed forecast straight-line depreciation amount for the 2023–27 period by \$62.0 million (\$ nominal) or 18.7% (Attachment 4).⁴⁴
- We reduced APA’s proposed forecast capex amount for the 2023–27 period by \$171.9 million (\$ nominal) or 46.3% (Attachment 5).

Figure 2.2 shows the key drivers of the change in APA’s capital base over the 2023–27 period for this draft decision. Overall, the closing capital base at the end of the 2023–27 period is forecast to be 9.6% higher than the opening capital base at the start of that period, in nominal terms. The approved forecast net capex and expected inflation increase the capital base by about 16.3% and 15.4%, respectively. Forecast depreciation, on the other hand, reduces the capital base by about 22.0%.

2.4.3 Capital base at commencement of the 2028–32 period

The capital base at the commencement of the 2028–32 period will be subject to adjustments consistent with the NGR. The adjustments for APA include (but are not limited to) actual inflation and approved depreciation over the 2023–27 period.

Our draft decision is to establish the opening capital base as at 1 January 2028 using the approved depreciation schedules based on forecast capex over the 2023–27 period.⁴⁵ This is consistent with the requirement in APA’s current access arrangement which requires that depreciation be based on forecast capex. We approved such an approach in our recent gas access arrangement decisions.⁴⁶ This approach is also consistent with the approach outlined in our *Access Arrangement Guideline*.⁴⁷ The amount of the forecast depreciation is to be approved by us in the final decision for the 2023–27 period.

⁴² Please see section 2.4.1 for the main drivers of this increase.

⁴³ The increase in the indexation to the capital base is largely due to the increase in the expected inflation rate which more than offsets the lower forecast capex in our draft decision.

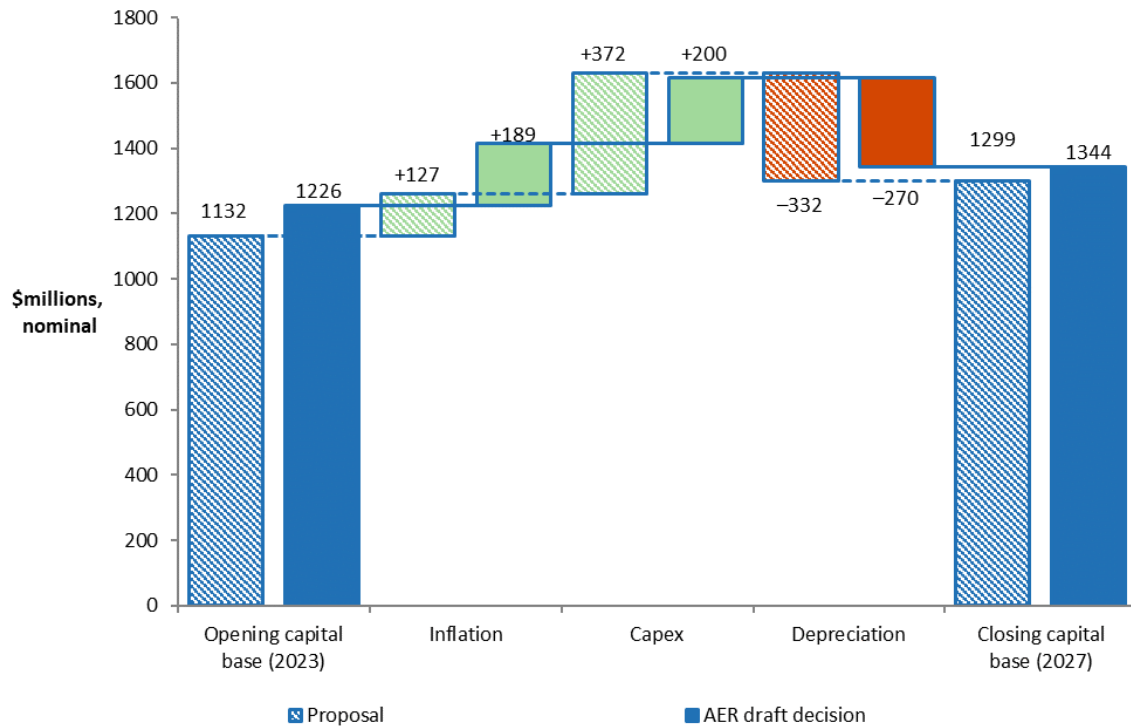
⁴⁴ Regulatory depreciation is the net total of straight-line depreciation and inflation indexation of the capital base.

⁴⁵ APA, *VTS 2023–27 Access Arrangement Proposal*, December 2021, cl. 3.6.

⁴⁶ AER, *Final decision: APA VTS Australia access arrangement 2018–22, Attachment 2 – Capital base*, November 2017, p. 8; AER, *Final decision: AusNet Services access arrangement 2018–22, Attachment 2 – Capital base*, November 2017, p. 23; AER, *Final decision: Multinet gas access arrangement 2018–22, Attachment 2 – Capital base*, November 2017, p. 7; AER, *Australian Gas Networks Victoria and Albury access arrangement 2018–22, Attachment 2 – Capital base*, November 2017, p. 6; AER, *Final decision: Jemena Gas Networks (NSW) access arrangement 2020–25, Attachment 2 – Capital base*, June 2020, p. 14; AER, *Final decision: Australian Gas Networks (SA) access arrangement 2021–26, Attachment 2 – Capital base*, April 2021, p. 7; AER, *Final decision: Evoenergy access arrangement 2021–26, Attachment 2 – Capital base*, April 2021, p. 7; AER, *Final decision: Amadeus Gas Pipeline access arrangement 2021–26*, April 2021, p. 23; AER, *Roma to Brisbane Pipeline access arrangement 2022–27, Overview*, May 2022, p. 32.

⁴⁷ AER, *Final access arrangement guideline*, March 2009, pp. 61–62.

Figure 2.2 Key drivers of changes in the capital base – APA’s proposal compared with AER’s draft decision (\$ million, nominal)



Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Source: AER Analysis.

A Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
APA / APA VTS	APA VTS Australia (Operations) Pty Ltd and APA VTS Australia (NSW) Pty Ltd
Capex	Capital Expenditure
NGL	National Gas Law
NGR	National Gas Rules
PTRM	Post-tax revenue model
RFM	Roll forward model
RIN	Regulatory Information Notice
VTS	Victorian Transmission System
WACC	Weighted average cost of capital