



DRAFT DECISION
ActewAGL Distribution
Access Arrangement
2016 to 2021

Attachment 2 – Capital base

November 2015

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Note

This attachment forms part of the AER's draft decision on ActewAGL Distribution's access arrangement for 2016–21. 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 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

Attachment 10 - Reference tariff setting

Attachment 11 - Reference tariff variation mechanism

Attachment 12 - Non-tariff components

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Shortened forms

| Shortened form | Extended form |
|-----------------------|---|
| AA | Access Arrangement |
| AAI | Access Arrangement Information |
| AER | Australian Energy Regulator |
| ASA | Asset Services Agreement |
| ATO | Australian Tax Office |
| capex | capital expenditure |
| CAPM | capital asset pricing model |
| CCP | Consumer Challenge Panel |
| CESS | Capital Expenditure Sharing Scheme |
| CMF | construction management fee |
| CPI | consumer price index |
| DAMS | Distribution Asset Management Services |
| DRP | debt risk premium |
| EBSS | Efficiency Benefit Sharing Scheme |
| EIL | Energy Industry Levy |
| ERP | equity risk premium |
| Expenditure Guideline | Expenditure Forecast Assessment Guideline |
| gamma | Value of Imputation Credits |
| GSL | Guaranteed Service Level |
| GTA | gas transport services agreement |
| ICRC | Independent Competition and Regulatory Commission |
| MRP | market risk premium |
| NECF | National Energy Customer Framework |
| NERL | National Energy Retail Law |
| NERR | National Energy Retail Rules |
| NGL | national gas law |
| NGO | national gas objective |
| NGR | national gas rules |
| NPV | net present value |
| opex | operating expenditure |

| Shortened form | Extended form |
|----------------|--|
| PFP | partial factor productivity |
| PPI | partial performance indicators |
| PTRM | post-tax revenue model |
| RBA | Reserve Bank of Australia |
| RFM | roll forward model |
| RIN | regulatory information notice |
| RoLR | retailer of last resort |
| RSA | Reference Service Agreement |
| 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 |
| UNFT | Utilities Network Facilities Tax |
| WACC | weighted average cost of capital |
| WPI | Wage Price Index |

2 Capital base

The capital base roll forward accounts for the value of ActewAGL's regulated assets 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 capex, and subtracting depreciation and other possible factors (for example, disposals or customer contributions).¹ Following this process, the AER arrives 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 block allowances.

As discussed in the overview, we decided to apply a reconciliation (or 'true-up') of ActewAGL's revenue for the 2015–16 interval of delay. Consequently, we must make a decision on ActewAGL's opening capital base as at 1 July 2015. We must also make a decision on ActewAGL's projected capital base during 2015–16 and the 2016–21 access arrangement period. This attachment presents our draft decision on these matters.

2.1 Draft decision

We do not approve ActewAGL's proposed opening capital base of \$339.0 million (\$nominal) as at 1 July 2015.² This is because we do not accept the adjustment ActewAGL made to the opening capital base as at 1 July 2015 for the 'IT systems' asset class. We determine an opening capital base of \$338.6 million (\$nominal) as at 1 July 2015, which is \$0.4 million (or 0.1 per cent) less than that proposed by ActewAGL.

Table 2.1 summarises our draft decision on the roll forward of ActewAGL's capital base during 2010–15 access arrangement period.

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 ActewAGL, *Proposed PTRM (alternative approach)*, June 2015.

Table 2.1 AER’s draft decision on ActewAGL’s capital base roll forward for 2010–15 access arrangement period (\$million, nominal)

| | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
|--|---------|---------|---------|---------|--------------|
| Opening capital base | 278.1 | 288.6 | 302.2 | 313.8 | 326.9 |
| Net capex | 12.0 | 15.0 | 18.7 | 18.6 | 24.8 |
| Indexation of capital base | 7.9 | 9.8 | 5.3 | 7.7 | 8.1 |
| Depreciation | –9.4 | –11.2 | –12.5 | –13.2 | –13.7 |
| Closing capital base | 288.6 | 302.2 | 313.8 | 326.9 | 346.1 |
| Adjustment for difference between estimated and actual capital expenditure in 2009–10 ^a | | | | | –7.5 |
| Opening capital base at 1 July 2015 | | | | | 338.6 |

Source: AER analysis.

(a) Comprising the difference between the actual and estimated capex for 2009–10 and the return on that difference.

We do not approve ActewAGL’s proposed roll forward of its projected capital base over 2015–16 and the 2016–21 access arrangement period, and do not approve its closing capital base at 30 June 2021 of \$467.2 million (\$nominal).³ This is because we have not approved ActewAGL’s proposed inputs to the projected capital base roll forward, specifically the opening capital base as at 1 July 2015, forecast capex, forecast inflation and depreciation. Based on our approved amounts for these inputs, we determine a projected closing capital base of \$419.7 million (\$nominal) as at 30 June 2021. This is \$47.5 million (\$nominal) less than that proposed by ActewAGL, a reduction of 10.2 per cent.

Table 2.2 sets out the projected roll forward of the capital base during 2015–16 and the 2016–21 access arrangement period.

³ ActewAGL, *Proposed PTRM (Alternative approach)*, June 2015.

Table 2.2 AER’s draft decision on projected capital base roll forward for 2015–16 and the 2016–21 access arrangement period (\$million, nominal)

| | 2015–16 | 2016–17 | 2017–18 | 2018–19 | 2019–20 | 2020–21 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Opening capital base | 338.6 | 365.0 | 378.9 | 392.0 | 403.9 | 411.4 |
| Net capex | 30.2 | 18.3 | 18.1 | 17.7 | 14.1 | 15.8 |
| Indexation of capital base | 8.5 | 9.1 | 9.5 | 9.8 | 10.1 | 10.3 |
| Depreciation | –12.2 | –13.4 | –14.5 | –15.6 | –16.7 | –17.7 |
| Closing capital base | 365.0 | 378.9 | 392.0 | 403.9 | 411.4 | 419.7 |

Source: AER analysis.

2.2 ActewAGL’s proposal

ActewAGL’s proposed RFM and PTRM for the reconciliation of revenue for 2015–16 interval of delay contain the opening capital base at 1 July 2015, projected capital base over 2015–16 and the 2016–21 access arrangement period.⁴ ActewAGL proposed the depreciation approach to be adopted for rolling forward the capital base from 1 July 2016 to 30 June 2021 at the next access arrangement review. It also proposed the depreciation approach to be used for 2015–16 when establishing the opening capital base in 2021.⁵

2.2.1 Opening capital base as at 1 July 2015

ActewAGL proposed an opening capital base as at 1 July 2015 of \$339.0 million (\$nominal). This amount is calculated by rolling forward the opening capital base as at 1 July 2010 of \$278.1 million (\$nominal) by adding actual net capex, removing approved forecast depreciation and adding inflation indexation on the opening capital base in each year of the 2010–15 access arrangement period.⁶ It made an adjustment for the difference between the actual and estimated capex for 2009–10. It also proposed to exclude over depreciated IT systems capital base value (with negative values on 30 June 2015) from the opening capital base as at 1 July 2015.⁷

ActewAGL’s proposed capital base roll forward during the 2010–15 access arrangement period is shown in Table 2.3.

⁴ ActewAGL, *Proposed RFM (Alternative approach)*, June 2015; ActewAGL, *Proposed PTRM (Alternative approach)*, June 2015.

⁵ ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 7 Capital base*, June 2015, pp. 11–12.

⁶ ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 7 Capital base*, June 2015, pp. 6–9.

⁷ ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 7 Capital base*, June 2015, p. 9.

Table 2.3 ActewAGL's proposed capital base roll forward during the 2010–15 access arrangement period (\$million, nominal)

| | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 |
|--|---------|---------|---------|---------|--------------|
| Opening capital base | 278.1 | 288.6 | 302.2 | 313.8 | 326.9 |
| Net capex | 12.0 | 15.0 | 18.7 | 18.6 | 24.8 |
| Indexation of capital base | 7.9 | 9.8 | 5.3 | 7.7 | 8.1 |
| Depreciation | –9.4 | –11.2 | –12.5 | –13.2 | –13.7 |
| Closing capital base | 288.6 | 302.2 | 313.8 | 326.9 | 346.1 |
| Adjustment for 2009–10 capex ^a | | | | | –7.5 |
| Exclusion of fully depreciated assets (with negative values on 30 June 2015) | | | | | 0.4 |
| Opening capital base at 1 July 2015 | | | | | 339.0 |

Source: ActewAGL, *Proposed RFM (Alternative approach)*, June 2015; AER analysis.

(a) Comprising the difference between the actual and estimated capex for 2009–10 and the return on that difference.

2.2.2 Projected capital base over 2015–16 and the 2016–21 access arrangement period

ActewAGL proposed a projected closing capital base as at 30 June 2021 of \$467.2 million (\$nominal). ActewAGL determined this value by adjusting the closing value at 30 June 2015 for inflation (attachment 3), depreciation (attachment 5) and forecast net capex (attachment 6). The projected roll forward of the capital base during the 2015–16 and the 2016–21 access arrangement period is shown in Table 2.4.

Table 2.4 ActewAGL's proposed projected capital base roll forward during 2015–16 and the 2016–21 access arrangement period (\$million, nominal)

| | 2015–16 | 2016–17 | 2017–18 | 2018–19 | 2019–20 | 2020–21 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Opening capital base | 339.0 | 370.1 | 389.3 | 412.7 | 433.7 | 454.0 |
| Net capex | 34.8 | 23.5 | 28.5 | 27.0 | 27.2 | 21.1 |
| Indexation of capital base | 8.6 | 9.4 | 9.9 | 10.5 | 11.1 | 11.6 |
| Depreciation | –12.3 | –13.7 | –15.0 | –16.5 | –18.1 | –19.4 |
| Closing capital base | 370.1 | 389.3 | 412.7 | 433.7 | 454.0 | 467.2 |

Source: ActewAGL, *Proposed PTRM (alternative approach)*, June 2015.

2.2.3 Capital base at the commencement of the 2021–26 access arrangement period

ActewAGL proposed to use forecast depreciation approved in the final decision of this access arrangement review to determine the opening capital base as at 1 July 2021. This approach is for 2015–16 and the 2016–21 access arrangement period. It stated that this will result in a consistent treatment of depreciation throughout 2015–16 and the 2016–21 access arrangement period.⁸

2.3 AER's assessment approach

Our approach to assessing ActewAGL's projected capital base is consistent with that adopted in previous gas decisions made under the NGR.⁹ In accordance with rule 77(2) and rule 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 2010–15 access arrangement period (in this case, 1 July 2010). This includes making an adjustment to account for any difference between actual and estimated capex in the final year of the previous access arrangement period (in this case, 2009–10). This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capex for that year.¹⁰ We

⁸ ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 7 Capital base*, June 2015, pp. 11–12.

⁹ For example, AER, *Final decision: Envestra (Victoria) access arrangement 2013–17 proposal*, March 2013; AER, *Final decision: AusNet (SP AusNet) access arrangement proposal 2013–17*, March 2013; AER, *Final decision: Multinet Gas access arrangement proposal 2013–17*, March 2013; AER, *Final decision: Jemena Gas Networks (NSW) access arrangement 2015–20*, June 2015.

¹⁰ NGR, r. 77(2).

note that this adjustment is subject to any further changes made in our assessment of conforming capex for 2009–10.

- Second, the opening capital base as at 1 July 2010 is rolled forward to determine the closing capital base as at 30 June 2015. This closing capital base is also used as the value of the opening capital base for the access arrangement period as at 1 July 2015. This involves:¹¹
 - adding conforming actual capex for each year—this requires assessing the capex and determining that it is consistent with the provisions of the 2010–15 access arrangement and data from audited annual reporting regulatory information notices, as well as the definition of 'conforming capital expenditure' in the NGR¹²
 - removing forecast depreciation for each year based on the approach approved for the 2010–15 access arrangement
 - removing any capital contributions during the 2010–15 access arrangement period
 - adding any speculative capex or redundant assets that were to be reused during 2015–16 and the 2016–21 access arrangement period
 - removing any redundant assets and disposals during the 2010–15 access arrangement period
 - indexing the roll forward each year for actual inflation.
- Third, the capital base is projected over 2015–16 and the 2016–21 access arrangement period by rolling forward the opening capital base as at 1 July 2015 to 30 June 2021. This involves performing the following on the opening capital base:¹³
 - adding forecast conforming capex for each year
 - removing forecast depreciation for each year
 - removing the forecast value of assets to be disposed of during 2015–16 and the 2016–21 access arrangement period
 - indexing the capital base of the roll forward each year for forecast inflation.

2.3.1 Interrelationships

The level 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) allowances.¹⁴ Factors that influence the capital base will therefore flow through to these building block components and the annual

¹¹ NGR, r. 77(2).

¹² NGR, r. 77(2).

¹³ NGR, r. 78.

¹⁴ The size of the capital base also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

building block revenue requirement. Other things being equal, a higher capital base increases both the return on capital and depreciation allowances. 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 capex¹⁵
- 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 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.

Depreciation reduces the capital base. The depreciation allowance depends on the size of the opening capital base and the forecast net capex. By convention, the indexation adjustment is also offset against depreciation to prevent double counting of inflation in the capital base and WACC, which are both presented in nominal terms. This reduces the apparent size of the depreciation building block that feeds into the annual building block model for setting revenue.

Figure 2.1 shows the key drivers of the change in the capital base over 2015–16 and the 2016–21 access arrangement period as proposed by ActewAGL.¹⁶ Overall, the closing capital base at the end of 2015–16 and the 2016–21 access arrangement period would be 38 per cent higher than the opening capital base at the start of that period based on the proposal, in nominal terms. The proposed forecast net capex increases the capital base by about 48 per cent, while forecast inflation increases it by about 18 per cent. Forecast depreciation, on the other hand, reduces the capital base by about 28 per cent.

The capital base would rise by 22 per cent in real terms over 2015–16 and the 2016–21 access arrangement period based on ActewAGL's proposal. We consider the depreciation amount to be generally reasonable and satisfy the requirements of the NGR in terms of the assigned asset lives.¹⁷ However, the depreciation amount is indicative as it also largely depends on the opening capital base (which in turn

¹⁵ Net capex is gross capex less disposals and capital contributions.

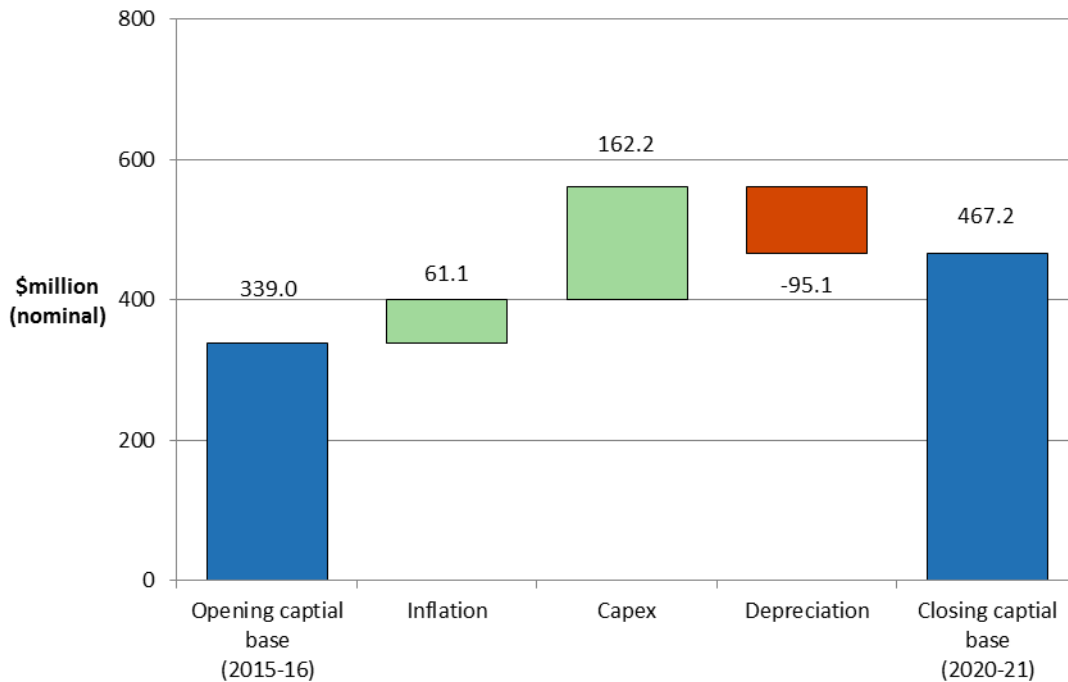
¹⁶ ActewAGL, *Proposed PTRM (Alternative approach)*, June 2015; AER analysis.

¹⁷ Refer to attachment 5 for the discussion on depreciation.

depends on forecast capex). We consider the size of the proposed forecast net capex to be a significant issue. Figure 2.1 shows forecast net capex is the largest driver of the increase in the capital base.¹⁸

A ten per cent increase in the opening capital base causes revenues to increase by about five per cent. However, the impact on revenues of the annual change in capital base depends on the source of the capital base change, as some drivers affect more than one building block cost.¹⁹

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



Source: AER analysis.

2.4 Reasons for draft decision

We do not approve ActewAGL’s proposed opening capital base of \$339.0 million (\$nominal) as at 1 July 2015. We have instead determined an opening capital base value of \$338.6 million (\$nominal) as at 1 July 2015, a reduction of \$0.4 million or 0.1 per cent from the proposed value. This is because we do not accept ActewAGL’s

¹⁸ Refer to attachment 6 for the discussion on forecast capex.

¹⁹ If capex causes the capital base increase, then return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the capital base increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in depreciation allowance. Inflation naturally increases the capital base in nominal terms. However, the real impact from changing the inflation forecast is inconsequential as revenues are updated annually by actual inflation and the X factor, which is generally unaffected by the assumed forecast inflation rate.

proposal to exclude the negative opening capital base value for the 'IT systems' asset class from the proposed PTRM (about $-\$0.4$ million).²⁰

We also do not approve ActewAGL's projected closing capital base of \$467.2 million (\$nominal) as at 30 June 2021. We instead determine a closing capital base of \$419.7 million (\$nominal) as at 30 June 2021, a reduction of \$47.5 million or 10.2 per cent from the proposed value. The main reasons for the reduction are our adjustments to its opening capital base as at 1 July 2015 (section 2.4.1), forecast depreciation (attachment 5) and forecast net capex (attachment 6).

We are satisfied each of these amendments is necessary having regard to the requirements of the NGR. The reasons for our decision are discussed below.

2.4.1 Opening capital base as at 1 July 2015

To determine the opening capital base as at 1 July 2015 we have assessed ActewAGL's proposed roll forward of its capital base over the 2010–15 access arrangement period to determine a closing capital base value at 30 June 2015. As part of this, we reviewed the following key inputs in the calculation of the capital base roll forward:

- adjustment for actual capex in 2009–10
- conforming capex in the 2010–15 access arrangement period
- depreciation amounts in the 2010–15 access arrangement period.

We accept the proposed values for the above key inputs. Our assessment of these proposed key inputs are discussed further below.

We also reviewed the other key inputs into ActewAGL's proposed capital base roll forward during the 2010–15 access arrangement period, such as CPI, rate of return, and asset lives. We found the proposed input values are consistent with relevant data sources such as ABS data and the 2010–15 decision models.

Although we accept the key inputs in the proposed RFM, we do not accept ActewAGL's proposal to exclude the negative opening value of $-\$0.4$ million (\$nominal) for the 'IT systems' asset class from its proposed opening capital base at 1 July 2015.

Opening capital base for 'IT systems' asset class

The opening capital base as at 1 July 2015 for the 'IT systems' asset class is negative (about -0.4 million). ActewAGL has excluded this amount from the opening capital

²⁰ ActewAGL, *Proposed PTRM (Alternative approach)*, June 2015.

base as at 1 July 2015 in its proposed PTRM.²¹ It noted that it has done so because IT systems capital base has been fully depreciated at 30 June 2015.²²

We do not agree with ActewAGL that the IT systems capital base can be considered as being “fully depreciated”. Instead, we consider the approach used to roll forward the capital base and the resulting negative value for the ‘IT systems’ asset class means there is an over recovery for that asset class.²³ We note that the negative value is due to ActewAGL’s adjustment to the 2013–14 capex to reverse the effect of an incorrect record in 2012–13.²⁴ It is also due to ActewAGL’s adjustment to the 2009–10 capex for overspending the capex allowance for that year. Therefore, the negative opening capital base value reflects over recovery by ActewAGL in 2009–10 and 2012–13. For this reason, we consider this negative value should not be excluded from the opening capital base as at 1 July 2015. We have therefore added this small negative value back to the opening capital base asset at 1 July 2015. This amendment will result in the ‘IT systems’ asset class being fully depreciated by way of returning the negative value to customers within 2015–16 and the 2016–21 access arrangement period.

Adjustment for actual capex in 2009–10

We accept ActewAGL’s proposal to remove \$7.5 million (\$nominal) from its capital base for adjusting the difference between estimated and actual capex for 2009–10. ActewAGL’s proposal used the AER’s RFM for electricity service providers, which provides for this adjustment. Under the RFM, the capital base is adjusted for the difference between estimated and actual capex for the final year of the previous access arrangement period (in this case 2009–10) and the accumulated return on capital associated with that difference.²⁵

Conforming capital expenditure in the 2010–15 access arrangement period

Our assessment of conforming capex (net of customer contributions) is set out in the capex attachment 6. In determining the opening capital base as at 1 July 2015, we assessed whether ActewAGL’s proposed capex amounts for the 2010–15 access arrangement are properly accounted for in the capital base roll forward.

We accept that ActewAGL’s proposed capex for the 2010–15 access arrangement period is properly included in the capital base roll forward and is consistent with the requirements of the NGR.²⁶ We note that the proposed capex for 2014–15 are estimates. Therefore the ‘approved’ capex in this draft decision for 2014–15 are

²¹ ActewAGL, *Proposed PTRM (Alternative approach)*, June 2015.

²² ActewAGL, *Proposed PTRM (Alternative approach)*, June 2015.

²³ This situation can arise particularly when the roll forward approach uses actual conforming capex and approved forecast depreciation.

²⁴ ActewAGL, *Response to AER information request AER ActewAGL 026: Roll forward model*, 24 August 2015.

²⁵ NGR, r. 77(2)(a).

²⁶ NGR, r. 77(2)(b).

placeholder amounts. We expect ActewAGL will provide actual capex for 2014–15 in its revised proposal. We will assess whether this capex is conforming capex in our final decision.

Depreciation used in the 2010–15 access arrangement period

Under the NGR, the AER must subtract from the capital base depreciation calculated in accordance with the relevant access arrangement.²⁷

We approve ActewAGL’s proposal to roll forward the capital base to 1 July 2015 using forecast depreciation (straight-line method, adjusted for actual inflation). This is consistent with clause 4.17 of the approved 2010–15 access arrangement. We also consider the amount of forecast depreciation subtracted from the capital base is correct and reflects the approved forecast depreciation for the 2010–15 access arrangement.

2.4.2 Projected capital base over 2015–16 and the 2016–21 access arrangement period

We forecast ActewAGL’s projected capital base at 30 June 2021 to be \$419.7 million (\$nominal), a reduction of \$47.5 million or 10.2 per cent from ActewAGL’s proposal. This results from our draft decision on the inputs to the determination of the projected capital base. We have amended the inputs in the following ways:

- Reduced ActewAGL’s opening capital base as at 1 July 2015 to \$0.4 million (\$nominal) or by 0.1 per cent to reflect the changes required in this attachment.
- Reduced ActewAGL’s proposed forecast net capex over 2015–16 and the 2016–21 access arrangement period by \$42.2 million (\$2014–15) or 28.9 per cent. Our assessment of the proposed forecast capex is set out in capex attachment 6.
- Reduced ActewAGL’s proposed forecast regulatory depreciation allowance over 2015–16 and the 2016–21 access arrangement period by \$1.1 million (\$nominal) or 3.2 per cent.²⁸ Our assessment of the proposed forecast depreciation is set out in depreciation attachment 5.
- Updated the forecast inflation to 2.5 per cent per annum for 2015–16 and the 2016–21 access arrangement period. Our assessment of ActewAGL’s proposed forecast inflation is set out in rate of return attachment 3.

2.4.3 Capital base at the commencement of the 2021–26 access arrangement period

The capital base at the commencement of the 2021–26 access arrangement period will be subject to adjustments consistent with the NGR.²⁹ The adjustments for ActewAGL

²⁷ NGR, r. 77(2)(d).

²⁸ Regulatory depreciation is the net total of straight-line depreciation and inflation indexation of the capital base.

²⁹ NGR, r. 77(2).

include (but are not limited to) actual inflation and approved depreciation over 2015–16 and the 2016–21 access arrangement period.³⁰

We accept ActewAGL’s proposal to use forecast depreciation for 2015–16 and the 2016–21 access arrangement period to establish ActewAGL’s opening capital base as at 1 July 2021.³¹ We approved such an approach in our recent gas decisions.³² This approach is also consistent with the approach outlined in our *Access Arrangement Guideline*.³³ The amount of the forecast depreciation is to be approved by us in the final decision for 2015–16 and the 2016–21 access arrangement period.

2.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable:

Revision 2.1: Make all necessary amendments to reflect this draft decision on the roll forward of the capital base for the 2010–15 access arrangement period, as set out in Table 2.1.

Revision 2.1: Make all necessary amendments to reflect this draft decision on the projected opening capital base for 2015–16 and the 2016–21 access arrangement period, as set out in Table 2.2.

³⁰ At the time of the final decision for this reset, we will have the actual capex for the last year of the 2010–15 access arrangement period (2014–15). Therefore there is no need to make a true-up adjustment for 2014–15 capex at the next reset.

³¹ ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 7 Capital base*, June 2015, pp. 11–12. The amount of the forecast depreciation to be used for rolling forward the capital base at the next reset will be set out in our final decision for ActewAGL’s 2015–16 and 2016–21 access arrangement period.

³² AER, *Final decision: APT Allgas access arrangement*, June 2011, p. 13; AER, *Final decision: Envestra access arrangement Qld*, June 2011, p. 25; AER, *Final decision: Envestra access arrangement SA*, June 2011, p. 28; AER, *Final decision: Envestra (Victoria) access arrangement proposal 2013–17 Part2: Attachments*, March 2013, p. 24; AER, *Final decision: AusNet (SP AusNet) arrangement proposal 2013–17 Part2: Attachments*, March 2013, p. 23; AER, *Final decision: MultiNet Gas arrangement proposal 2013–17*, March 2013, p. 2; AER, *Final decision: Jemena Gas Networks 2015–20, Attachment 2*, June 2015, p. 2.

³³ AER, *Final access arrangement guideline*, March 2009, pp. 61–62.