DRAFT DECISION
Australian Gas Networks Access Arrangement 2016 to 2021

Attachment 2 – Capital base

November 2015

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's draft decision on Australian Gas Networks' 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

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Shortened forms

Shortened form	Extended form
AA	Access Arrangement
AAI	Access Arrangement Information
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CCP	Consumer Challenge Panel
CESS	Capital Expenditure Sharing Scheme
CPI	consumer price index
CSIS	Customer Service Incentive Scheme
DRP	debt risk premium
EBSS	Efficiency Benefit Sharing Scheme
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
GSL	Guaranteed Service Level
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
NIS	Network Incentive Scheme
NPV	net present value
opex	operating expenditure
PFP	partial factor productivity
PPI	partial performance indicators
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia

Shortened form	Extended form
RFM	roll forward model
RIN	regulatory information notice
RoLR	retailer of last resort
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	Service Target Performance Incentive Scheme
TAB	Tax asset base
UAFG	Unaccounted for gas
WACC	weighted average cost of capital
WPI	Wage Price Index

2 Capital base

The capital base roll forward accounts for the value of AGN'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.

We are required to make a decision on AGN's opening capital base as at 1 July 2016 for the 2016–21 access arrangement period. We are also required to make a decision on AGN's projected capital base for the 2016–21 access arrangement period. This attachment presents our draft decision on these matters.

2.1 Draft decision

We do not approve AGN's proposed opening capital base of $1428.8 million ($nominal) as at 1 July 2016. This is because we made several amendments to AGN's proposed roll forward model (RFM) to correct some inputs and modelling errors.

We determine an opening capital base of $1414.3 million ($nominal) as at 1 July 2016, which is $14.6 million (or 1.0 per cent) less than that proposed by AGN.

Table 2.1 summarises our draft decision on the roll forward of AGN's capital base during the 2011–16 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.

Table 2.1 AER's draft decision on AGN's capital base roll forward for the 2011–16 access arrangement period ($million, nominal)

	2011–12	2012–13	2013–14	2014–15	2015–16
Opening capital base	1023.9	1070.7	1140.0	1230.9	1305.6
Net capex	58.0	83.9	102.9	108.2	134.7
Indexation of capital base	16.2	26.8	33.4	16.3	32.6
Depreciation	–27.5	–41.4	–45.4	–49.9	–51.9
Closing capital base	1070.7	1140.0	1230.9	1305.6	1421.0
Adjustment for difference between estimated and actual capital expenditure in 2010–11[a]					–6.7
Opening capital base at 1 July 2016					1414.3

Source: AER analysis.

(a) Comprising the difference between the actual and estimated capex for 2010–11 and the return on that difference.

We do not approve AGN's proposed roll forward of its projected capital base over the 2016–21 access arrangement period, and do not approve its closing capital base at 30 June 2021 of $2116.0 million ($nominal). This is because we have not approved AGN's proposed inputs to the projected capital base roll forward, specifically the opening capital base, forecast capex and depreciation. Based on our approved amounts for these inputs, we determine a projected closing capital base of $1767.5 million ($nominal) as at 30 June 2021. This is $348.4 million ($nominal) less than that proposed by AGN, a reduction of 16.5 per cent.

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

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

	2016–17	2017–18	2018–19	2019–20	2020–21
Opening capital base	1414.3	1489.0	1566.0	1636.2	1699.6
Net capex	84.6	90.3	88.1	85.0	87.9
Indexation of capital base	35.4	37.2	39.1	40.9	42.5
Depreciation	–45.3	–50.5	–57.0	–62.5	–62.4
Closing capital base	1489.0	1566.0	1636.2	1699.6	1767.5

Source: AER analysis.

2.2 AGN's proposal

AGN's proposal outlined its opening capital base at 1 July 2016, projected capital base over the 2016–21 access arrangement period, and the depreciation approach for determining the opening capital base at 1 July 2021 at the next access arrangement review.

2.2.1 Opening capital base as at 1 July 2016

AGN proposed an opening capital base as at 1 July 2016 of $1428.8 million ($nominal). This amount is calculated by rolling forward the opening capital base as at 1 July 2011 of $1019.9 million[2] ($nominal) by adding actual net capex, removing approved forecast depreciation and adding inflation indexation on the opening capital base in each year of the 2011–16 access arrangement period.[3]

AGN's proposed capital base roll forward during the 2011–16 access arrangement period is shown in Table 2.3.

Table 2.3 AGN's proposed capital base roll forward during the 2011–16 access arrangement period ($million, nominal)

	2011–12	2012–13	2013–14	2014–15	2015–16
Opening capital base	1024.5	1089.1	1150.4	1239.0	1336.7
Net capex	58.5	83.5	102.7	109.1	133.9
Indexation of capital base	33.4	17.7	28.8	36.3	17.8
Depreciation	–27.2	–40.0	–42.9	–47.7	–52.2
Closing capital base	1089.1	1150.4	1239.0	1336.7	1436.2
Adjustment for 2010–11 capex[a]					–7.3
Opening capital base at 1 July 2016					**1428.8**

Source: AGN, *Proposed RFM,* July 2015.

(a) Comprising the difference between the actual and estimated capex for 2010–11 and the return on that difference.

[2] This value is after adjusting about $4.5 million ($nominal) for the difference between the actual and estimated capex for 2010–11. The unadjusted opening capital base as at 1 July 2011 is $1024.5 million ($nominal) as shown in Table 2.3.

[3] AGN, *2016–21 Access arrangement information*, July 2015, p. 159.

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

AGN proposed a projected closing capital base as at 30 June 2021 of $2116.0 million ($nominal). AGN determined this value by adjusting the closing value at 30 June 2016 for forecast net capex (attachment 6), depreciation (attachment 5) and inflation (attachment 3). The projected roll forward of the capital base during the 2016–21 access arrangement period is shown in Table 2.4.

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

	2016–17	2017–18	2018–19	2019–20	2020–21
Opening capital base	1428.8	1562.7	1711.5	1849.9	1988.8
Net capex	145.3	163.6	158.5	162.3	150.3
Indexation of capital base	35.7	39.1	42.8	46.2	49.7
Depreciation	–47.1	–53.9	–62.9	–69.7	–72.9
Closing capital base	1562.7	1711.5	1849.9	1988.8	2116.0

Source: AGN, *Proposed PTRM*, July 2015.

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

AGN proposed to use forecast depreciation to determine the opening capital base as at 1 July 2021. However, it stated that it will reconsider its position in the event that the AER does not accept AGN's proposed capital incentive scheme to apply over the 2016–21 access arrangement period.[4]

2.3 AER's assessment approach

Our approach to assessing AGN's projected capital base is consistent with that adopted in previous gas decisions made under the NGR.[5] In accordance with rule 77(2) and rule 78 of the NGR, we applied three steps to calculate the projected capital base:

[4] AGN, *Access arrangement information*, July 2015, p. 167.

[5] 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.

- First, we confirm the value of the opening capital base for the first year of the 2011–16 access arrangement period (in this case, 1 July 2011). 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, 2010–11). This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capex for that year.[6] We note that this adjustment is subject to any further changes made in our assessment of conforming capex for 2010–11.
- Second, the opening capital base as at 1 July 2011 is rolled forward to determine the closing capital base as at 30 June 2016. This closing capital base is also used as the value of the opening capital base for the access arrangement period as at 1 July 2016. This involves:[7]
    - adding conforming actual capex for each year—this requires assessing the capex and determining that it is consistent with the provisions of the 2011–16 access arrangement and data from audited annual reporting regulatory information notices, as well as the definition of 'conforming capital expenditure' in the NGR[8]
    - removing forecast depreciation for each year based on the approach approved for the 2011–16 access arrangement
    - removing any capital contributions during the 2011–16 access arrangement period
    - adding any speculative capex or redundant assets that were reused during the 2016–21 access arrangement period
    - removing any redundant assets and disposals during the 2011–16 access arrangement period
    - indexing the roll forward each year for actual inflation.
- Third, the capital base is projected over the 2016–21 access arrangement period by rolling forward the opening capital base as at 1 July 2016 to 30 June 2021. This involves performing the following on the opening capital base:[9]
    - adding forecast conforming capex for each year
    - removing forecast depreciation for each year
    - removing the forecast value of assets to be disposed of during the 2016–21 access arrangement period
    - indexing the capital base of the roll forward each year for forecast inflation.

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6 NGR, r. 77(2)(a).
7 NGR, r. 77(2).
8 NGR, r. 77(2).
9 NGR, r. 78.

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.[10] 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 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 capex[11]
- 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 the 2016–21 access arrangement period as proposed by AGN. Overall, the closing capital base at the end of the 2016–21 access arrangement period would be 48.1 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 54.6 per cent, while forecast inflation increases it by about 14.9 per cent. Forecast depreciation, on the other hand, reduces the capital base by about 21.5 per cent.

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[10] 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.

[11] Net capex is gross capex less disposals and capital contribution.

The capital base would rise by 34.2 per cent in real terms over the 2016–21 access arrangement period based on AGN's proposal. We note stakeholder's concerns (Business SA, Nyrstar, Energy Consumers Coalition of South Australia, and South Australian Wine Industry Association) with AGN's proposed large increase in its forecast capital base.[12] We consider the depreciation amount to be generally reasonable and satisfy the requirements of the NGR in terms of the assigned asset lives.[13] The depreciation amount is indicative as it also largely depends on the opening capital base (which in turn depends on capex). However, we consider the size of the 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.[14]

A ten per cent increase in the opening capital base causes revenues to increase by about six 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.[15]

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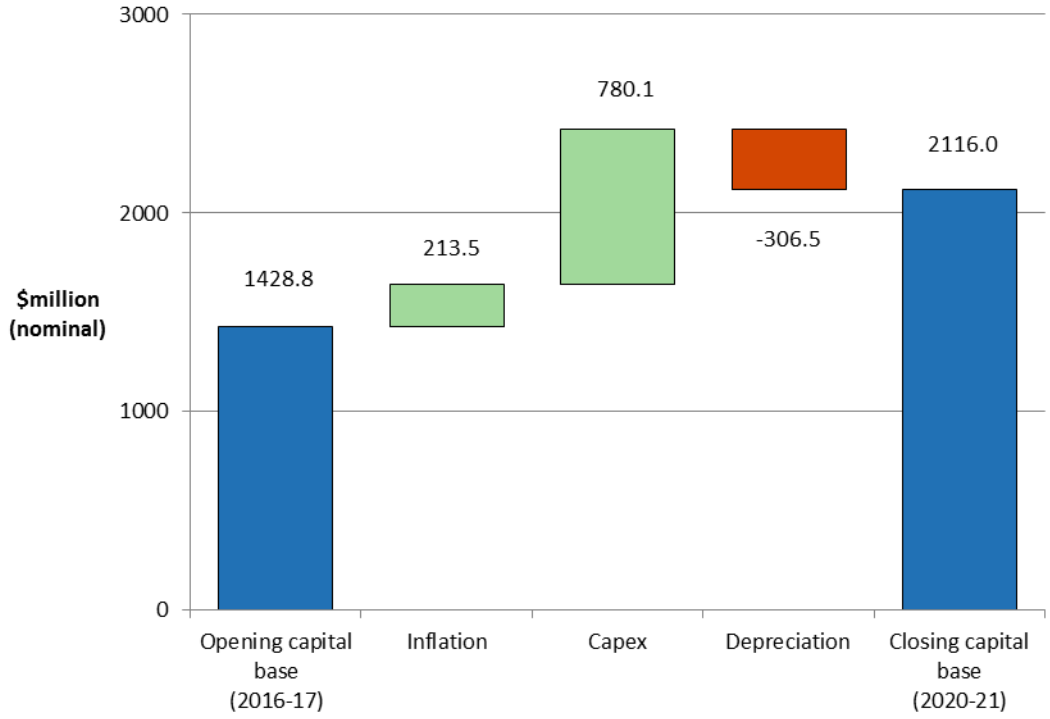
[12] Business SA, *Submission to AER on proposed Australian Gas Networks Access Arrangement (2016–21)*, August 2015, p. 10; Nyrstar, *Australian Gas Networks (Access arrangement revision proposal (2016–21)*, August 2015, p. 1; ECCSA, *SA Gas distribution revenue reset AGN application*, August 2015, pp. 12–13; SAWIA, *Submission in response to Australian Gas Networks (SA) Access arrangement 2016–21*, August 2015, p. 4.

[13] Refer to attachment 5 for the discussion on depreciation.

[14] Refer to attachment 6 for the discussion on forecast capex.

[15] 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.

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 AGN's proposed opening capital base of $1428.8 million ($nominal) as at 1 July 2016. We have instead determined an opening capital base value of $1414.3 million ($nominal) as at 1 July 2016, a reduction of $14.6 million or 1.0 per cent from the proposed value. This is due to the amendments we made in the proposed RFM for correcting some input and modelling errors.

We also do not approve AGN's projected closing capital base of $2116.0 million ($nominal) as at 30 June 2021. We instead determine a closing capital base of $1767.5 million ($nominal) as at 30 June 2021, a reduction of $348.4 million or 16.5 per cent from the proposed value. The main reasons for the reduction are our adjustments to its opening capital base as at 1 July 2016 (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 Roll forward of capital base during the 2011–16 access arrangement period

To determine the opening capital base as at 1 July 2016 we have assessed AGN's proposed roll forward of its capital base over the 2011–16 access arrangement period

to determine a closing capital base value at 30 June 2016. As part of this assessment, we reviewed the following key inputs in the calculation of the capital base roll forward:

- adjustment for actual capex in 2010–11
- conforming capex in the 2011–16 access arrangement period
- depreciation amounts in the 2011–16 access arrangement period.

Our amendments to the above inputs are discussed further below.

We also reviewed the other key inputs into AGN's proposed capital base roll forward during the 2011–16 access arrangement period, such as CPI and rate of return. We corrected the actual inflation rates used in the proposed RFM to reflect the March quarter on March quarter CPI reported by the ABS, consistent with the CPI rates used for the annual tariff adjustment purposes. We also changed the 2010–11 forecast inflation value in the proposed RFM to be consistent with the value approved in the 2011–16 access arrangement. We have discussed these CPI input errors with AGN. AGN agreed with our amendments on these matters.[16]

Adjustment for actual capex in 2010–11

AGN proposed to remove $7.3 million ($nominal) from its capital base for adjusting the difference between estimated and actual capex for 2010–11. We accept AGN's proposed approach to adjusting its capital base for actual capex in 2010–11. AGN'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 2010–11) and the accumulated return on capital associated with that difference.[17]

In accepting the proposed approach, we have updated the amount removed from the capital base to $6.7 million ($nominal) from the proposed $7.3 million ($nominal). This amendment reflects the changes we made to the inputs in the proposed RFM. These inputs are the forecast net capex and forecast regulatory depreciation for 2010–11, actual customer contributions for 2010–11 and actual inflation and forecast inflation rates for 2010–11.[18]

Conforming capital expenditure in the 2011–16 access arrangement period

Our assessment of conforming capex is set out in capex attachment 6. In determining the opening capital base as at 1 July 2016, we assessed whether AGN's proposed capex amounts for the 2011–16 access arrangement are properly accounted for in the capital base roll forward.

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16 AGN, *Response to AER information request: AER Aust Gas Networks 015 – RFM*, 12 August 2015.

17 NGR, r. 77(2)(a).

18 AGN, *Response to AER information request: AER Aust Gas Networks 015 – RFM*, 12 August 2015.

We accept that AGN's proposed capex for the 2011–16 access arrangement period is properly included in the capital base roll forward and is consistent with the requirements of the NGR.[19] We note that the proposed capex for 2014–15 and 2015–16 are estimates.[20] Therefore the 'approved' capex in this draft decision for 2014–15 and 2015–16 are placeholder amounts. We expect AGN will provide actual capex for 2014–15 and the 2015–16 capex estimates may be revised based on more up to date information in its revised proposal. We will assess whether the actual capex for 2014–15 are conforming capex in our final decision. We will undertake the assessment of whether the 2015–16 amounts are conforming capex as part of the next access arrangement determination.

Depreciation used in the 2011–16 access arrangement period

Under the NGR, the AER must subtract from the capital base depreciation calculated in accordance with the relevant access arrangement.[21]

We approve AGN's proposal to roll forward the capital base to 1 July 2016 using forecast depreciation (straight-line method, adjusted for actual inflation). This is consistent with the AER's final decision for AGN's 2011–16 access arrangement.[22] However, our review of the proposed RFM found that AGN had applied depreciation based on actual capex. Following a request from us, AGN advised that this was an unintended error.[23] We have therefore amended the forecast depreciation amounts in the proposed RFM to reflect those amounts (adjusted for CPI) approved in the 2011–16 access arrangement.

2.4.2 Projected capital base during the 2016–21 access arrangement period

We forecast AGN's projected capital base at 30 June 2021 to be $1767.5 million ($nominal), a reduction of $348.4 million or 16.5 per cent from AGN'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 AGN's opening capital base as at 1 July 2016 by $14.6 million ($nominal) or by 1.0 per cent to reflect the changes required in this attachment.
- Reduced AGN's proposed forecast net capex by $310.3 million ($2015–16) or 43.8 per cent. Our detailed assessment of the proposed forecast capex is set out in attachment 6.

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19 NGR, r. 77(2)(b).

20 We have changed the estimated capex for 2015–16 in the proposed RFM to be consistent with the value in the reset RIN. AGN, *Response to AER information request: AER Aust Gas Networks 015 – RFM*, 12 August 2015.

21 NGR, r. 77(2)(d).

22 AER, *Final decision: Envestra Ltd Access arrangement proposal for the SA gas network 1 July 2011–30 June 2016*, June 2011, p. xi.

23 AGN, *Response to AER information request: AER Aust Gas Networks 015 – RFM*, 12 August 2015.

- Reduced AGN's proposed forecast regulatory depreciation allowance by $10.3 million ($nominal) or 11.1 per cent.[24] Our assessment of the proposed forecast depreciation is set out in attachment 5.

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.[25] These adjustments include (but are not limited to):

- the difference between estimated and actual capex for 2015–16 (the final year of the 2011–16 access arrangement period), including an adjustment to remove any benefit or penalty associated with the difference between the estimated and actual capex[26]
- actual inflation and approved depreciation over the 2016–21 access arrangement period.

We accept AGN's proposal to use forecast depreciation for the 2016–21 access arrangement period to establish AGN's opening capital base as at 1 July 2021.[27] We consider the use of forecast depreciation is the preferred approach for establishing AGN's opening capital base as at 1 July 2021 because it complies with the requirements of the national gas objective[28] and the revenue and pricing principles.[29]

In particular, we consider the forecast depreciation approach:

- is better suited to the dynamics of the gas distribution sector because of the inherent flexibility for service providers to defer capital maintenance and replacement expenditure
- will limit AGN's incentive to defer capex that we have approved as prudent and efficient
- will allow AGN to recover at least its efficient costs of investment in its network
- is consistent with the approach approved for AGN's 2011–16 access arrangement period, and also with the approach used for all other gas distribution networks

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

25 NGR, r. 77(2).

26 NGR, r. 77(2)(a).

27 AGN, *2016–21 access arrangement information*, July 2015, pp. 166–167. 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 AGN's 2016–21 access arrangement period.

28 NGL, s. 23.

29 NGL, s. 24.

- is consistent with the approach outlined in the AER's *Access Arrangement Guideline*.[30]

For these reasons, we consider the forecast depreciation approach will promote more efficient investment in AGN's networks in the long term interests of natural gas users.[31] It will do so by limiting AGN's incentive to defer efficient pipeline investment that has been approved in its building block revenue allowance. The amount of the forecast depreciation is to be approved by us in the final decision for AGN's 2016–21 access arrangement period.

AGN made its proposed depreciation approach for establishing the opening capital base as at 1 July 2021 contingent on our acceptance of the proposed Capital Expenditure Sharing Scheme (CESS). AGN stated that it will reconsider the depreciation approach in the event that the AER does not accept its proposed CESS.[32]

We do not agree with AGN that the depreciation approach for establishing the opening capital base at the next access arrangement review should be contingent on our acceptance of the proposed CESS. As discussed in attachment 14, we do not approve AGN's proposal to introduce a CESS for the 2016–21 access arrangement period. In the absence of a CESS, we still consider the use of forecast depreciation is the appropriate approach for establishing AGN's opening capital base as at 1 July 2021. This is because the forecast depreciation approach will limit AGN's incentive to defer efficient and prudent expenditure included in its approved capex allowance. As discussed in attachment 6, AGN underspent its capex allowance in the 2011–16 access arrangement period. AGN's capex performance in the 2011–16 access arrangement period is a continuation of a longer term trend. In the 2006–11 access arrangement period, AGN (then Envestra) also underspent its capex allowance.[33] Therefore, we do not consider it necessary to provide AGN with further incentive to underspend its capex through the depreciation approach for rolling forward the capital base.[34]

Further, in relation to the contingent nature of AGN's proposal, we consider that it is difficult for the AER and other stakeholders to undertake a full assessment of a proposal which is not set out in clear and complete terms. As set out in the attachments to our decision, we have regard to the interrelationships between components and the effect of our decision as a whole. Here, in not accepting the contingent proposal, we do not consider that our decision on the CESS impacts on our decision on the depreciation approach for establishing AGN's opening capital base as at 1 July 2021.

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30 AER, *Final access arrangement guideline*, March 2009, pp. 65–66.

31 NGL, s. 24(3)(a).

32 AGN, *Access arrangement information*, July 2015, p. 167.

33 Envestra, *South Australia Access Arrangement Information*, September 2010, p. 37.

34 The further incentive arises under the use of actual depreciation in the roll forward of the capital base. This is because when actual capex is lower than forecast, the difference in depreciation between forecast and actual becomes a benefit that is kept by the service provider within the 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 2011–16 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 the 2016–21 access arrangement period, as set out in Table 2.2.