Explanatory statement

Gas transmission and distribution network service providers

Proposed roll forward models (version 1)

December 2019

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: ModelReviews@aer.gov.au
AER reference: 65293

Invitation for submissions

The Australian Energy Regulator invites interested parties to make written submissions on the proposed amendments to the distribution and transmission roll forward models by close of business, **20 January 2020**.

We prefer that all submissions sent in an electronic format are in Microsoft Word or other text readable document form. Submissions should be sent electronically to ModelReviews@aer.gov.au.

Alternatively, submissions can be sent to:

Mr Warwick Anderson
General Manager, Networks Finance and Reporting
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information are requested to:

- Clearly identify the information that is the subject of the confidentiality claim.
- Provide a non-confidential version of the submission in a form suitable for publication.

We will place all non-confidential submissions on our website. For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy (June 2014), which is available on our website.

Please direct enquiries about this paper, or about lodging submissions to ModelReviews@aer.gov.au or to the Networks Finance and Reporting branch of the AER on 1300 585 165.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	capital expenditure
DV	diminishing value
ITAA	Income Tax Assessment Act
NEL	National Electricity Law
NEO	National Electricity Objective
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NSP	network service provider
PTRM	post-tax revenue model
RFM	roll forward model
SL	straight-line
TAB	tax asset base
WARL	weighted average remaining life

Contents

About us

We, the Australian Energy Regulator (AER), work to make all Australian energy consumers better off, now and in the future. We are the independent regulator of energy network service providers (NSPs) in all jurisdictions in Australia except for Western Australia. We set the revenue requirements these NSPs can recover from customers using their networks.

The National Electricity Law and Rules (NEL and NER) and the National Gas Law and Rules (NGL and NGR) provide the regulatory framework which govern the NSPs. Our role is guided by the National Electricity and Gas Objectives (NEO and NGO).

NEO:[1]

> …to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system.

NGO:[2]

> …to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

The decisions we make and the actions we take affect a wide range of individuals, businesses and organisations. Effective and meaningful engagement with stakeholders across all our functions is essential to fulfilling our role, and it provides stakeholders with an opportunity to inform and influence what we do. Engaging with those affected by our work helps us make better decisions, provides greater transparency and predictability, and builds trust and confidence in the regulatory regime. This is reflected in our *Stakeholder engagement framework* and in the consultation process we are following.[3]

1 NEL, s. 7.
2 NGL, s. 23.
3 AER, *Revised stakeholder engagement framework*, September 2017.

1 Introduction

This explanatory statement (with associated handbooks) is a notice describing the proposed transmission and distribution roll forward models (RFMs),[4] our reasons for preparing them and inviting submissions in accordance with the NGR.[5] The preparation of these RFMs has been assisted through the work relating to our published electricity distribution and transmission roll forward models. These RFMs also implement the relevant findings from our final report on the review of the regulatory tax framework (the tax review) and incorporate several amendments to account for gas specific requirements. This section provides an overview of the purpose of the template gas RFMs and the reason for developing them. Section 2 outlines the key differences compared to the electricity RFMs. Section 3 sets out the initial consultation we undertook in preparing the RFMs and the key issues for comment.

1.1 What does the RFM do?

The RFM establishes the method used to roll forward the capital base—that is, increase or decrease from the previous value:[6]

- from one access arrangement period to the next access arrangement period
- from one regulatory year to the next regulatory year in the same access arrangement period.

The closing capital base value for an access arrangement period as calculated by the RFM becomes the opening capital base for the next access arrangement period. This opening capital base value is the input to the post-tax revenue model (PTRM), where it is rolled forward from one regulatory year to the next regulatory year on a forecast indicative basis. It is used in the PTRM as part of the calculation of total revenue.

The RFM deals with many aspects of the capital base estimation, including:[7]

- establishment of the opening capital base for an access arrangement period
- adjustments for conforming capital expenditure (capex)
- the depreciation approach based on forecast or actual capex
- how the roll forward should occur within the access arrangement period.

The roll forward of the capital base from year-to-year will reflect:

- additions for actual capex, net of customer contributions and the value of disposals
- reductions for depreciation (based on approved asset lives and methods)
- indexation for actual inflation

4 Included in the appendices.
5 NGR, r. 75A.
6 NGR, r. 75B(3).
7 NGR, r. 77.

- adjustment for the difference between estimated and actual capex for the previous access arrangement period
- other adjustments for removal or addition of assets made under certain circumstances (such as changes in the speculative capital expenditure account or capital redundancy) in accordance with the NGR.

The RFM also incorporates a similar roll forward calculation of the tax asset base (TAB) over the access arrangement period. As with the capital base, the output TAB values from the RFM are inputs to the PTRM used to calculate the building block costs.

We have included a standard approach to calculate year-by-year tracking of depreciation for both capital base and tax depreciation in response to the growing number of NSPs which have adopted the 'year-by-year tracking' approach to model depreciation.[8] This has resulted in bespoke tracking models with differing approaches for each individual business. Not only does this complicate our assessment of regulatory proposals, it also creates unnecessary complexity for stakeholders, requiring them to examine every unique model during a determination process. This approach is an alternative to the 'weighted average remaining life' (WARL) approach to depreciation,[9] and provides greater granularity and transparency of the disaggregated year-by-year tracking of capex.

Our standard approach for year-by-year tracking is included as a separate template file (*depreciation tracking module*) which is an attachment to the RFM template file. The outputs from the depreciation tracking module will feed back into the RFM where tax depreciation includes capex depreciated using the diminishing value (DV) method. It will also be used to calculate inputs to the PTRM where the year-by-year depreciation tracking is used to determine forecast depreciation of the opening capital base.

A gas NSP's access arrangement proposal must be prepared using our RFM.[10]

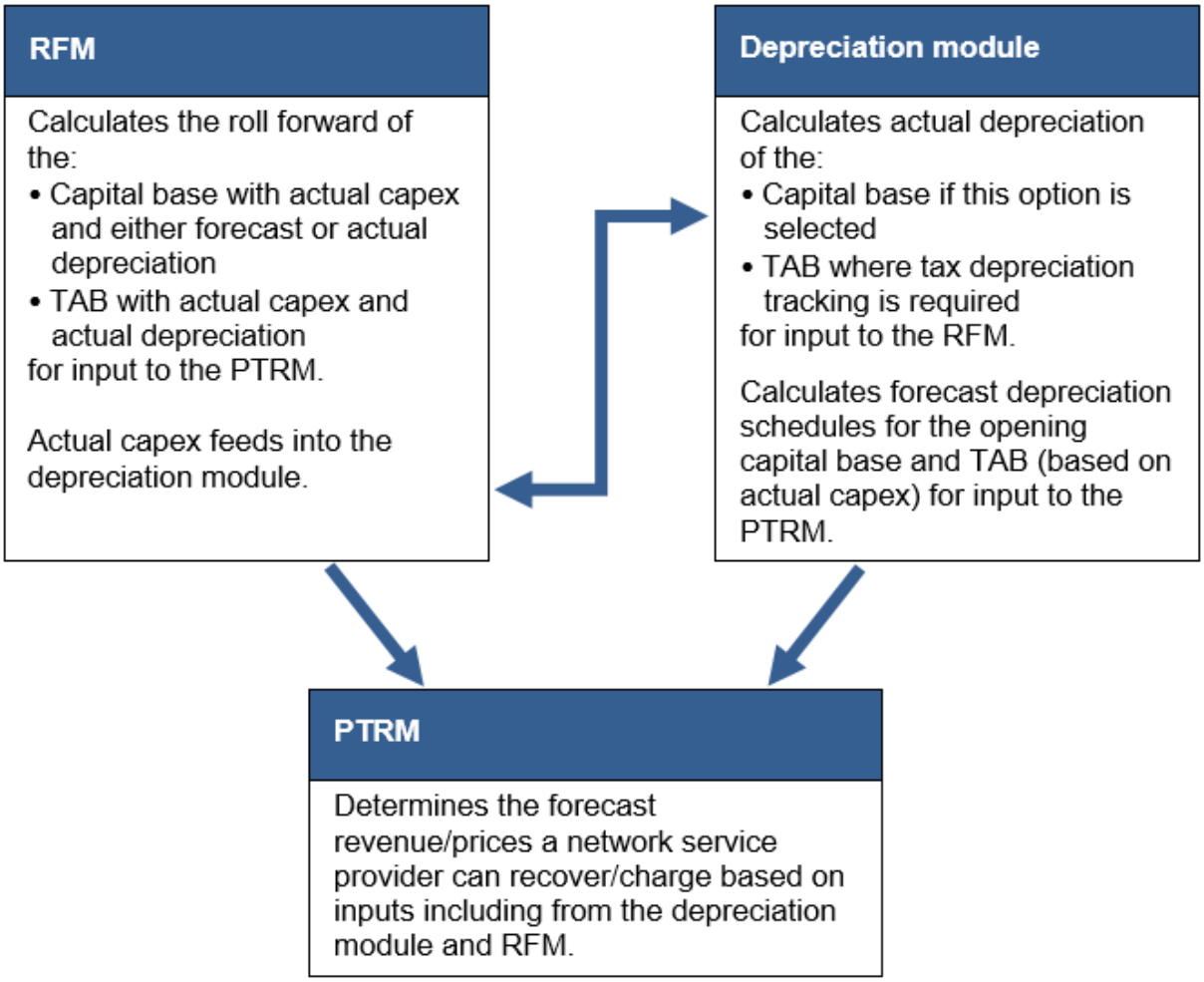
Figure 1 shows the purpose and interrelationship between the RFM, depreciation module and the PTRM.

8 The year-by-year tracking approach implements the straight-line method of depreciation (in addition to grouping assets by type via asset classes) and tracks the asset classes on a yearly basis.

9 The weighted average remaining life approach calculates depreciation on the opening asset bases (by asset class) on a straight-line basis over the specified remaining life.

10 NGR, rr. 72(3) and 75A(2).

Figure 1 Overview of the interrelationship between the RFM, depreciation module and PTRM.



1.2 Why are we preparing template gas models?

On 14 March 2019 the Australian Energy Market Commission made a final determination to implement a range of improvements to the regulation of covered transmission and distribution gas pipelines across Australia.[11] Part of this determination included an amendment to the NGR, to allow the AER to prepare and publish a revenue and capital base roll forward models (financial models).[12] When published, these models must subsequently be used by NSPs as part of their access arrangement proposals.[13] The provisions for these rules relating to the publishing of financial models came into effect on 21 March 2019.

The NGR has not historically required gas businesses to use models published by the AER—NSPs instead submitted business-specific financial models or made ad-hoc amendments to the published template electricity models. The absence of a standard

11 AEMC, *Rule determination—Regulation of covered pipelines*, 14 March 2019. A covered pipeline is a pipeline regulated by the AER or Economic Regulation Authority in Western Australia.

12 NGR, r. 75A.

13 NGR, rr. 72(3) and 75A(2).

binding structure and approach for all businesses in the way these elements of the access arrangement proposals are calculated and presented results in significant burden on us to assess and compare proposals. It also impacts the ability of stakeholders to fully engage in the determination process where resources must be devoted to comprehend the specific workings of bespoke financial models.

In line with the recently amended NGR we propose to publish two models—one for the purposes of rolling forward the capital base, known as the RFM, and another for determining forecast revenues for an upcoming access arrangement period, known as the PTRM.[14] These models have been developed from the latest version of the electricity RFMs and PTRMs, with adjustments allowing for gas business-specific details and requirements.[15] As with the electricity models, we have developed models for distribution and transmission NSPs due to the differences in approaches to capital expenditure recognition, tariff variation mechanism and revenue equalisation.

1.3 How can stakeholders contribute?

We invite stakeholders to consider our proposed template RFMs and make written submissions to us. As such, we are publishing this explanatory statement which:[16]

- describes the proposed RFMs and the reasons for them
- includes as appendices the proposed template RFMs, depreciation tracking modules and associated handbooks

We discuss in detail the development of the proposed template RFMs in section 2.1. We welcome submissions from stakeholders on any aspects of the RFM and implementation of the depreciation tracking module by 20 January 2020.[17]

We will consider submissions on the proposed RFMs before we decide on the final template RFMs. By the end of March 2020, we will publish:[18]

- a final decision that sets out the provision of the NGR under which the RFMs are being prepared and our response to issues raised in submissions[19]
- the final template RFMs, depreciation tracking modules and associated handbooks.

The timeline and milestones for this RFM development process are shown in Table 1.

14 Revenues from reference services for all gas NSPs we currently regulate are determined on a post-tax basis, which is consistent with the approach we apply to electricity NSPs. As such, we have continued this approach in developing the template gas revenue model. The proposed revenue model is therefore referred to as the post-tax revenue model (PTRM).

15 The RFM templates for gas NSPs are being developed in parallel with revisions to the RFM templates for electricity NSPs.

16 NGR, r. 75A(4).

17 Interested parties must be allowed at least 30 business days to make submissions to the AER; NGR, r. 75A(4)(b).

18 The period between publication of the proposed amended models and final amended models will be no more than 80 business days. NGR, r. 75A(6).

19 NGR, r. 75A(7)

Table 1 Proposed project timeline and milestones

Date	Milestone
5 December 2019	AER issues explanatory statement on proposed template RFMs for consultation
20 January 2020	Stakeholder submissions on proposed RFMs close
End of March 2020	AER issues final decision and RFMs

2 Development of the RFMs

In preparing the template gas RFMs, we have amended the latest versions of the electricity RFMs published on our website to allow for gas business-specific details and requirements. We have done this because most gas NSPs already use these published models as the base for access arrangement proposals, making ad-hoc adjustments to fit their needs. The proposed gas RFMs include adjustments allowing for gas business-specific details and requirements. The proposed template RFMs also implement the relevant findings from our final report of the tax review.[20] As with the electricity RFMs, we have separated the gas RFMs for distribution and transmission NSPs, due to the differences in approaches to capital expenditure recognition.

2.1 Updates to published electricity RFMs

The RFMs for gas NSPs are being developed in parallel with amendments to the current published RFMs for electricity NSPs.[21] The proposed gas RFMs incorporate some of the key proposed amendments we are making to the electricity RFMs through this process including:

- allowing for year-by-year tracking depreciation (capital base and TAB) via a separate 'depreciation tracking module' template file which will be an attachment to the RFM, and
- changes arising from the tax review regarding the use of DV tax depreciation for new assets and immediate expensing of certain capex.

2.1.1 Diminishing value method for tax depreciation

The current versions of the electricity RFMs use the straight-line (SL) method to calculate tax depreciation for all asset classes. The final report of the tax review established the DV method as the new regulatory benchmark for tax depreciation for all new assets.[22] This approach has been implemented in the electricity PTRMs and is reflected in the proposed gas PTRMs.[23] In the context of tax law, this includes: new assets added to the cost base of an existing depreciated asset, and new and separate depreciating assets for the purposes of Division 40 of the *Income Tax Assessment Act (ITAA)*. Implementation of the findings of the tax review regarding tax depreciation are to be applied on a prospective basis, therefore this is relevant to all capex in access arrangement periods that commence after the tax review (i.e. from January 2019).[24]

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20 Amendments to the current electricity RFMs to implement the findings of the 2018 tax review (as well as other amendments) are being developed in parallel to the gas RFM templates (See: https://www.aer.gov.au/node/65053).

21 Refer to AER website: https://www.aer.gov.au/node/65053.

22 AER, *Final report: Review of regulatory tax approach*, December 2018, p. 76.

23 AER, *Final decision – Amendments to the electricity transmission and distribution post-tax revenue models*, April 2019, pp. 11–13; AER, *Explanatory statement – Gas transmission and distribution network service providers –Post-tax revenue models*, December 2019, p. 11.

24 AER, *Final report: Review of regulatory tax approach*, December 2018, pp. 71–78.

There are some exceptions to this approach such as assets relating to buildings, in-house software and equity raising costs.[25] We therefore provide for capex relating to these exempt categories to continue to be depreciated under the SL method. Description of these assets and reasons for these exceptions to the DV method are discussed in more detail in the final report of the tax review and final decision to the recent electricity PTRM amendment.[26] The proposed gas PTRMs provide for asset classes 47–50 to be depreciated using the SL method for tax purposes rather than the DV method. It is expected that for consistency the same four asset classes in the RFM template and depreciation tracking module will be used for these asset types.[27]

The tax review findings on tax depreciation apply only to capex in access arrangement periods that commence after the final report of the tax review. Therefore, the proposed RFM depreciation tracking module—where the change is implemented—allows the user to specify the tax depreciation method (SL or DV) to apply to each year of capex for tax depreciation tracking purposes. The RFM template maintains the SL method for the tax depreciation calculation on the opening TAB and capex that is not subject to the tax review findings. Where the roll forward of the TAB for the access arrangement period is subject to the tax review findings—or where the DV approach has been used in the past—it is expected that tax depreciation will be calculated using the depreciation tracking module (see Box 1). A flow chart displaying the implementation of tax review findings across models is included as appendix A. The depreciation tracking module (section 2.1.3) allows for both the opening TAB and annual capex to be calculated using the DV approach where relevant, and input into the RFM template using the 'Actual tax depreciation' input section.

Under the DV formula, the value of an asset class is depreciated in perpetuity. This means the residual value of the asset class would not be fully written off unless a constraint is set in the DV formula. Our proposed gas PTRM (and current electricity PTRM) use the capital base standard life (technical life) constraint to tax depreciation under a DV approach in addressing the residual tax asset value issue.[28] This results in the asset fully depreciating at the end of its technical life (capital base standard asset life) for each asset class. This is consistent with the Australian Tax Office's (ATO's) treatment of depreciation where an asset's value is able to be written off for tax purposes if the business no longer holds or uses the asset.[29] This is particularly relevant to gas NSPs due to the statutory cap of 20 years on the tax lives of certain classes of gas transmission and distribution assets.[30] Many of these assets have a technical life much longer than 20 years, so writing off the residual value at the end of the technical life recognises that the assets are in service for longer than the

25 The tax law/ruling relating to each of these asset classes are respectively: sections 43.15, 43.140, 43.210 and 43.20 of the ITAA and ATO taxation ruling 97/25; sections 40.72 and 995.1 of the ITAA and ATO taxation ruling 2016/3; and section 40.880 of the ITAA and ATO taxation ruling 2011/6.

26 AER, *Final report: Review of regulatory tax approach*, December 2018, pp. 71–78; AER, *Final decision - Amendments to the electricity transmission and distribution post-tax revenue models*, April 2019, p. 17.

27 For consistency in the formulae all asset classes in the tracking file module can accommodate depreciation using both the SL or DV methods.

28 AER, *Final decision - Amendments to the electricity transmission and distribution post-tax revenue models*, April 2019, pp. 13–16.

29 ITAA, section. 40.295.

30 AER, *Final report: Review of regulatory tax approach*, December 2018, pp. 78–80.

specified tax life. It also avoids the potential large step change in tax depreciation that may occur if the residual tax value was written off after 20 years.

In making this decision in the electricity PTRM amendment we also noted that applying this constraint required the age of each annual stream of capex to be tracked for tax purposes to determine when the residual tax value should be deducted. We noted that including a standard approach to year-by-year depreciation tracking would enable this constraint to be applied to capex in the roll forward process (as well as automatically separate the 'asset pools' using different depreciation methods).[31] This constraint has been built into the tax depreciation formula within the depreciation tracking module, where an asset is only written off at the end of its technical life.

2.1.2 Immediate expensing of actual capex

As outlined in the final report of the tax review, certain capex (such as refurbishment capex) is able to be 'immediately expensed' under tax legislation. The current versions of the electricity RFMs do not recognise the ability to immediately expense some capex, and instead treat all capex as additions to the TAB—depreciated over their approved standard tax asset life—for tax purposes. The final report for the tax review set out that the calculation of tax depreciation in the regulatory models should recognise immediately deductible capex in the modelling of the forecast tax costs included in the total revenue. For consistency in rolling forward the TAB for actual capex, the same approach is applied to the calculation of tax depreciation of actual capex in the RFM. As such, the proposed RFM allows for immediately deductible capex to be expensed in the year in which the capex is incurred/commissioned. Consistent with the prospective nature of the tax review findings, this is only relevant to capex in access arrangement periods that commence after the tax review.

As discussed in section 2.1.1 and Box 1, NSPs implementing the tax review findings on tax depreciation will need to use the year-by-year tracking approach when rolling forward the TAB. Therefore, immediate expensing of capex is implemented in the depreciation tracking module to the RFM, rather than in the RFM template. The tax depreciation outputs from the tracking module feed back into the RFM to be used when rolling forward the TAB.

2.1.3 Year-by-year depreciation tracking approach

The current version of the electricity RFMs calculates a WARL for each asset class based on the SL depreciation on the existing capital base and TAB respectively. This approach determines an aggregated remaining life at the end of an access arrangement period for each asset class. This involves rolling forward the approved remaining lives of existing assets and standard lives of new assets to the end of the access arrangement period. These are then weighted against each of their asset values at the end of the access arrangement period to come up with an average remaining life for the asset class as a whole. The capital base and TAB WARLs for each asset class—as calculated in the RFM—are then used as

31 AER, *Final decision - Amendments to the electricity transmission and distribution post-tax revenue models*, April 2019, pp. 13–16.

inputs to the PTRM to determine the forecast depreciation of the opening capital base and TAB values.

In recent decisions, many NSPs have proposed an alternative year-by-year tracking approach to calculate the forecast depreciation on existing assets.[32] The year-by-year tracking approach is more complex than WARL, as the annual capex of each asset class is tracked as disaggregated annual streams over time. This detail is preserved across multiple access arrangement periods. These disaggregated streams of expenditures can be thought of as asset sub-classes. This approach provides greater granularity and transparency of the disaggregated capex categories at any point in time.

As NSPs will be required to apply year-by-year depreciation tracking to tax depreciation for capex subject to the tax review depreciation changes—and many NSPs already track their capital base depreciation in separate depreciation models—we have developed a standard year-by-year tracking depreciation approach. This approach is set out in the depreciation tracking module, and is an attachment to the RFM (appendices C and E). The depreciation tracking module includes the calculation of capital base and TAB tracked depreciation. This standardises the approach, calculations and structure of the tracking model for all NSPs to apply going forward.

This module consists of two input worksheets and two depreciation calculation worksheets for the capital base and TAB respectively, a capital base tracking summary and a final output worksheet containing necessary data for input to the RFM and PTRM. Buttons have been included to initiate macros which facilitate the expansion of the model as necessary. All inputs to this module should be sourced from the corresponding RFM for the relevant access arrangement period. Details of the required inputs and operating the depreciation tracking module are set out in the RFM handbooks (appendices F and G).

The calculations and functionality of the depreciation tracking module should not differ significantly from the majority of depreciation models currently used by NSPs. Accordingly, we consider there will be minimal disruption in migrating to this new prescribed module. We have conducted extensive engagement with all NSPs to address any implementation concerns, and to facilitate the migration of NSPs currently utilising separate depreciation tracking models. We intend to continue this engagement throughout the RFM development process. Where there are unaccounted for differences between our prescribed module and the tracking models currently used by NSPs, we will continue working directly with the affected NSPs on how to adapt to the new depreciation tracking module.

The proposed RFM also accommodates inputs coming from the depreciation tracking module where relevant. This includes input sections for the depreciation values and options to specify whether the capital base and/or TAB is to be rolled forward using year-by-year tracked depreciation.[33]

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32 For example: JGN, *2020–25 access arrangement proposal, Attachment 7.4 - Depreciation Model*, June 2019; AGN, *2018–22 access arrangement proposal 2018–22, Attachment 1.9 – Victoria Depreciation Model*, December 2016.

33 For the capital base, the RFM utilises the same input section as that used to accommodate a forecast depreciation approach to rolling forward the capital base in the current electricity RFM, with a new option in the drop-down selection.

As discussed in section 2.1.1 and the final report of the tax review all NSPs will be required to use year-by-year tracking for tax depreciation to fully implement the findings of the tax review.[34] This ensures the DV method of tax depreciation is applied to actual capex and the residual value is written off when the asset's economic life expires. This approach is consistent with that set out in our 2019 decision for amending the electricity PTRMs to implement the tax review changes, and with the proposed gas PTRMs.[35] Box 1 outlines the scenarios for implementing year-by-year depreciation tracking.

Box 1 Scenarios for implementing year-by-year depreciation tracking

Scenario 1: Current access arrangement period implemented the tax review findings

Where an NSP's most recent access arrangement implemented the findings of the tax review on tax depreciation it will be required to use the RFM's depreciation tracking module to calculate tax depreciation at the next reset. This will ensure that tax depreciation over the current access arrangement period applies the DV method of tax depreciation to relevant capex over that period.

If an NSP currently calculates tax depreciation using year-by-year tracking in a separate depreciation model, it will be required to migrate the data to the RFM depreciation tracking module.

NSPs that do not use year-by-year tracking to calculate depreciation of the capital base may also choose to use this approach at the same time as for tax depreciation. However, this is not required and it may choose to remain using the WARL approach for its capital base depreciation. The RFM also calculates WARLs that may be used to estimate forecast capital base depreciation in the PTRM. If an NSP currently uses a separate depreciation tracking model to calculate year-by-year depreciation tracking, it will be required to migrate the data to the new RFM tracking module at the next reset in order to continue with the year-by-year tracking approach.

Scenario 2: Next access arrangement period will implement tax review findings

If an NSP's most recent access arrangement was made before the tax review changes (before 2019), its actual capex in the current access arrangement period is not subject to the tax review findings on tax depreciation. In this case, the NSP's next access arrangement will implement the findings of the tax review in the PTRM to determining forecast revenues for the next access arrangement period. The roll forward of the TAB in this review would not be impacted by the tax review changes to tax depreciation. As such, the WARL approach and SL method of tax depreciation are able to be used.

NSPs in this situation may therefore continue using the WARL approach in respect of calculating capital base and TAB depreciation. They may also choose to use the year-by-year depreciation tracking of the capital base and/or TAB using the RFM depreciation tracking module but are not required to do so at this point.

34 AER, *Final report: Review of regulatory tax approach*, December 2018, pp. 71–78.

35 AER, *Final decision - Amendments to the electricity transmission and distribution post-tax revenue models*, April 2019, pp. 13–16; AER, *Explanatory statement – Gas transmission and distribution network service providers –Post-tax revenue models*, December 2019, p. 11.

NSPs that currently use a separate depreciation model to calculate year-by-year depreciation tracking (capital base and/or TAB) will be required to migrate the data to the RFM tracking module.

2.2 Key differences with the electricity RFMs

The published electricity RFMs are also being amended to allow for adjustments to actual capex for the second last year (year t–2) of the previous regulatory control period where an ex-post review of capex has occurred. This is not required for the gas RFM. For a typical 5 year access arrangement period, the review of conforming capex usually comprises of the final year of the previous access arrangement period and the first 4 years of the current access arrangement period.[36] Any adjustment to actual capex in the final year of the previous access arrangement period can already be accommodated in the **Adjustment for previous period** worksheet.

The final report of the tax review included one finding that is only applicable to gas NSPs. This relates to the statutory cap of 20 years applying to certain classes of gas transmission and distribution assets for tax depreciation purposes.[37] The existing published electricity RFMs can accommodate this finding—as the tax standard asset lives are inputs to the RFM. Therefore, we consider that no specific model amendment is required to implement this finding in preparing the gas RFMs. However, we have included a comment note for the standard tax asset life inputs that mentions the statutory cap on these assets for reference.

The proposed gas RFMs include other minor changes to the electricity RFMs for gas-specific labels and rule references. For a complete list of modifications, please see the respective change logs in each RFM.

36 This is generally due to availability of actual information, which is lagged by one year, when the access arrangement review is taking place.

37 AER, *Final report: Review of regulatory tax approach*, December 2018, pp. 78–80.

3 Consultation

This section summarises the initial consultation process already undertaken, and identifies the key issues for comment on our proposed RFMs for gas NSPs.

3.1 Initial consultation

In the lead up to preparing the proposed RFMs we conducted initial consultation with parties interested in the development of the gas financial models. These included all regulated gas NSPs and other individuals that registered their interest in our development process. All stakeholders we engaged with were provided with preliminary draft models and asked to provide feedback on the proposed contents and workings.

Jemena, AusNet Services, and ATCO Gas responded with feedback specific to the preliminary draft gas RFMs. However, as noted earlier the gas RFMs are being developed in parallel with proposed amendments to the current published RFMs for electricity NSPs that were also provided to interested parties. A number of stakeholders provided feedback through that process which we have had regard to when developing the proposed gas RFMs.[38] The majority of the feedback on the RFMs concerned the application of the depreciation tracking module and its calculations. Feedback from stakeholders has been incorporated in the proposed RFMs. In particular, we have included a number of extra prompts to clarify where inputs are required in the depreciation tracking module. In response to feedback from AusNet Services, we have also included depreciation calculations for potential asset adjustments/movements in each year of an access arrangement, rather than just end of period adjustments.

3.2 Key issues for consultation

Our positions on the proposed RFMs reflect those set out in the electricity RFM amendment processes. Further, the implementation of the tax review changes on the DV method and immediate expensing of capex reflect the positions set out in the recently completed electricity PTRM amendment process.[39] However, we would welcome receiving submissions on whether these positions have been correctly implemented in the proposed gas RFMs.

Further, we seek comment on:

1. The implementation of year-by-year depreciation tracking, including:
    - the calculations underlying the RFM depreciation tracking module, and
    - the accommodation of outputs from the depreciation tracking module into the RFM template.
2. Any gas specific circumstances that have not been properly accounted for in the proposed RFM.

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38 AER, *Explanatory statement – Electricity transmission and distribution network service providers – Roll forward models*, December 2019 p. 23.

39 AER, *Final decision - Amendments to the electricity transmission and distribution post-tax revenue models*, April 2019.

Appendices

The appendices include the proposed template RFMs, depreciation tracking modules and associated handbooks (transmission and distribution). The proposed RFMs include a **Change log** worksheet that summarises the changes made from the proposed amended electricity RFMs. This will be removed from the final versions.

Appendix A: Implementation of tax review depreciation findings–flow chart

Appendix B: Proposed transmission roll forward model

Appendix C: Proposed transmission roll forward model – depreciation tracking module

Appendix D: Proposed distribution roll forward model

Appendix E: Proposed distribution roll forward model – depreciation tracking module

Appendix F: Proposed transmission roll forward model handbook

Appendix G: Proposed distribution roll forward model handbook

Appendix A: Implementation of tax review depreciation findings–flow chart