FINAL DECISION
Australian Gas Networks (SA) Access Arrangement

2021 to 2026

Attachment 2
Capital base

April 2021

Director, Corporate Communications
Australian Competition and Consumer Commission
GPO Box 4141, Canberra ACT 2601

or publishing.unit@accc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: AERInquiry@aer.gov.au

AER reference: 65192

Note

This attachment forms part of the AER's final decision on the access arrangement that will apply to Australian Gas Networks (SA) ('AGN') for the 2021–26 access arrangement period. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency carryover mechanism

Attachment 11 – Non-tariff components

Attachment 12 – Demand

Attachment 13 – Capital expenditure sharing scheme

Contents

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 capital expenditure (capex), and subtracting depreciation and other possible factors (for example, disposals or customer contributions).[1] The opening value of the capital base is used to determine the return of capital (regulatory depreciation) and return on capital building blocks.

This attachment sets out our final decision on AGN's opening capital base as at 1 July 2021 for the 2021–26 access arrangement period. It also sets out our final decision on AGN's projected capital base for the 2021–26 period and that the forecast depreciation approach will be used for establishing the opening capital base as at the commencement of the 2026–31 period.

2.1 Final decision

Opening capital base as at 1 July 2021

Our final decision approves an opening capital base value of $1702.0 million ($nominal) as at 1 July 2021 for AGN. This amount is $25.4 million (or 1.5 per cent) lower than AGN's revised proposed opening capital base value of $1727.4 million ($nominal) as at 1 July 2021.[2] This reduction is due to:

- updating the roll forward model (RFM) for 2020–21 actual consumer price index (CPI) that is now available
- a lower estimated IT capex for 2020–21.

To determine the opening capital base as at 1 July 2021, we have rolled forward the capital base over the 2016–21 period to determine a closing capital base value at 30 June 2021, in accordance with the RFM. This roll forward includes an adjustment at the end of the 2016–21 period to account for the difference between actual 2015–16 capex and the estimate approved in our 2016–21 decision.[3]

In the draft decision, we accepted AGN's proposed opening capital base as at 1 July 2021 subject to a minor update for the 2016–21 forecast inflation rate input in AGN's RFM to be consistent with the value in the approved post tax revenue model (PTRM) for the 2016–21 period. We also updated the actual capex, asset disposals and capital contribution values in the RFM to be consistent with the annual reporting regulatory information notice (RIN). These updates resulted in a marginal reduction of $0.1 million

---

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 AGN, *Revised Final Plan 2021–26, Attachment 1.2A - Roll Forward Model*, 13 January 2021.

3 The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2016–21 decision; NGR, r. 77(2)(a).

($nominal) to AGN's proposed opening capital base as at 1 July 2021. We also noted that the proposed capex for 2019–20 and 2020–21 were estimates. We expected that AGN would provide the actual capex for 2019–20 and that it may revise the 2020–21 capex estimate in its revised proposal.

In its revised proposal, AGN adopted our draft decision updates to the opening capital asset base as at 1 July 2021. AGN's revised proposed opening capital base is $1727.4 million ($nominal).[4] This is $41.9 million (or 2.4 per cent) lower than our draft decision. This reduction is due to the following updates made by AGN in its revised proposed RFM:[5]

- AGN has updated the 2019–20 capex and capital contribution inputs with actuals in its revised proposed RFM. As a result, the net actual capex for 2019–20 is about $7.4 million ($2015–16) lower than the estimated value included in our draft decision, reflecting lower mains replacement, augmentation and IT capex
- AGN has revised the 2020–21 estimated capex with more up-to-date values. The revised estimated capex for 2020–21 is about $32.7 million lower than our draft decision. This is mainly due to AGN's plan to not extend its network to Mt Barker in the 2016–21 period (–$30 million). It is also due to its plan to delay some IT projects to the 2021–26 period.

We have assessed AGN's revisions to its capex. In particular, we have checked the 2019–20 actual capex in the revised proposal RFM and are satisfied that the values are consistent with those presented in the annual reporting RIN for that year. However, there are inconsistencies between the values at the asset class level. Following an information request, AGN has confirmed that the annual RIN contains the correct asset class allocation. We have therefore updated the RFM for 2019–20 capex and capital contributions for a number of asset classes to be consistent with the annual RIN. This amendment does not affect the total opening capital base value, but will slightly reduce the forecast depreciation amount by about $0.3 million (or 0.1 per cent) from the revised proposal, all else being equal, due to the amendments for reallocating the capex and capital contributions inputs across asset classes.

We note AGN's reduction to its revised estimate of capex for 2020–21. While we accept that this is driven by AGN's plan to not extend its network to Mt Barker, the small reduction to its IT projects appears to indicate there is still a significant amount of spending in the final year of the current access arrangement period compared to the previous four years of actual IT capex. In its response to our information request, AGN acknowledged that a number of projects encountered significant delays and are not on track to incur the estimated capex spend. As a result, AGN has further revised its estimated IT capex for 2020–21 to align with what it has already spent for the financial

---

4 AGN, *Revised Final Plan 2021–26, Attachment 9.3 - Response to Draft Decision on Capital Base,* 13 January 2021, p. 4, Table 1.3.

5 AGN, *Revised Final Plan 2021–26, Attachment 9.3 - Response to Draft Decision on Capital Base,* 13 January 2021, p. 4, Table 1.3.

year to date (1 July 2020 to 31 January 2021).[6] We accept this revision and therefore our final decision for AGN's estimated gross capex for 2020–21 is $5.9 million ($nominal) lower than its revised proposal of $122.7 million ($nominal). We will account for the financial impact of any difference between actual and estimated capex for 2020–21 at the next access arrangement review.

For the reasons discussed in Attachment 5, we accept AGN's updates to 2016–20 capex in its revised proposal and subsequent response to our information request as conforming capex for the 2016–21 access arrangement period. As capex in 2020–21 is currently an estimate, we will assess whether actual capex is conforming for this year in the next review. We also consider that actual conforming capex has been properly accounted for in the capital base roll forward, consistent with the requirements of the NGR.[7]

We have also updated the actual inflation input for 2020–21 with actual CPI in the RFM which became available after AGN submitted its revised proposal. This update reduces the opening capital base value by about $19.3 million (or 1.1 per cent) from the revised proposal, all else being equal.

Table 2.1 sets out our final decision on the roll forward of AGN's capital base during the 2016–21 access arrangement period to determine the opening capital base as at 1 July 2021.

Table 2.1 AER's final decision on AGN's capital base roll forward for the 2016–21 access arrangement period ($million, nominal)

	2016–17	2017–18	2018–19	2019–20	2020–21[a]
Opening capital base	1385.6	1454.1	1534.7	1614.0	1682.1
Net capex[b]	91.9	101.9	108.2	101.5	115.8
Indexation of capital base	20.5	27.8	27.4	29.7	14.5
Less: straight-line depreciation[c]	43.8	49.0	56.3	63.2	64.8
Interim closing capital base	1454.1	1534.7	1614.0	1682.1	1747.5
Difference between estimated and actual capex in 2015–16					–35.4
Return on difference for 2015–16 capex					–10.2
Closing capital base as at 30 June 2021					**1702.0**

Source: AER analysis.

(a) Based on estimated capex provided by AGN.

(b) Net of disposals and capital contributions, and adjusted for actual CPI.

(c) Adjusted for actual CPI. Based on forecast capex.

6 AGN, *Information request #023 – IT Investment Plan*, March 2021, pp. 2–4.

7 NGR, rr. 77(2)(b), 79(1).

Forecast closing capital base as at 30 June 2026

We approve a forecast closing capital base value of $1929.1 million ($nominal) at 30 June 2026 for AGN.[8] This is $8.0 million (or 0.4 per cent) lower than the $1937.1 million ($nominal) in AGN's revised proposal. Our final decision on the projected closing capital base reflects our changes to the opening capital base as at 1 July 2021, and our final decisions on forecast capex (attachment 5), expected inflation (attachment 3) and forecast depreciation (attachment 4).

Table 2.2 sets out our final decision on the projected roll forward of the capital base for AGN over the 2021–26 access arrangement period.

Table 2.2 AER's final decision on AGN's projected capital base roll forward for the 2021–26 access arrangement period ($million, nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26
Opening capital base	1702.0	1756.0	1810.0	1849.7	1896.0
Net capex[a]	111.7	115.6	107.3	111.7	103.6
Indexation of opening capital base	34.0	35.1	36.2	37.0	37.9
Less: straight-line depreciation	91.8	96.7	103.9	102.3	108.5
Closing capital base	**1756.0**	**1810.0**	**1849.7**	**1896.0**	**1929.1**

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC to compensate for the six month period before capex is added to the capital base for revenue modelling.

For this final decision, we confirm our draft decision position that the opening capital base as at 1 July 2026 is to be established using the approved depreciation schedules (straight-line) based on forecast capex at the asset class level.[9]

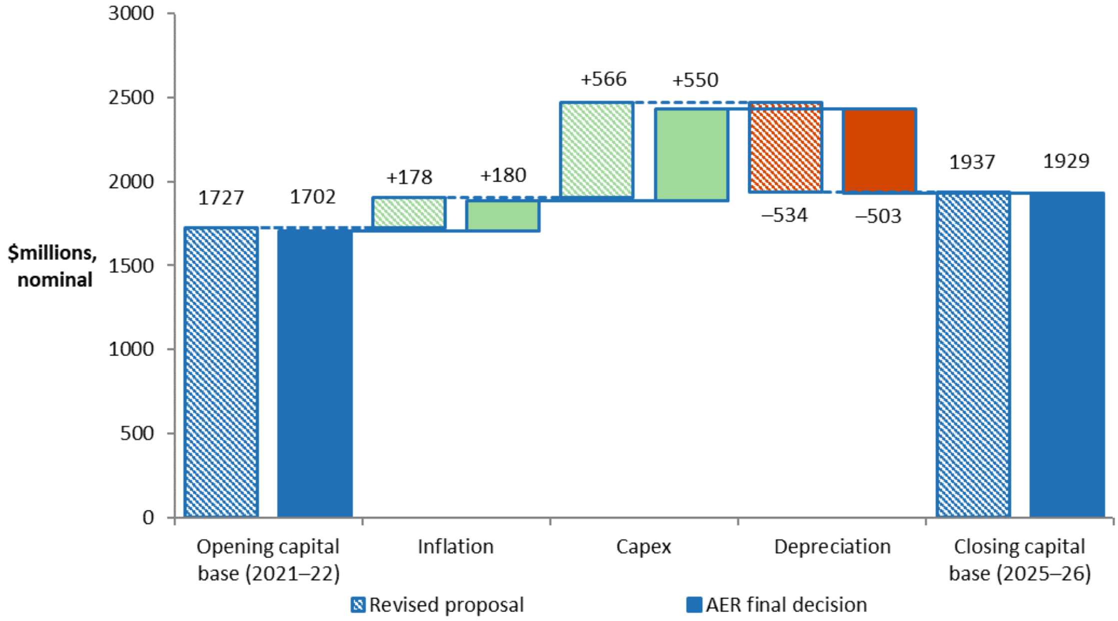
Figure 2.1 shows the key drivers of the change in AGN's projected capital base over the 2021–26 access arrangement period for this final decision. Overall, the closing capital base at the end of the 2021–26 period is forecast to be 13.3 per cent higher than the opening capital base at the start of that period, in nominal terms. The approved forecast net capex increases the capital base by 32.3 per cent, while expected inflation increases it by 10.6 per cent. Forecast depreciation,[10] on the other hand, reduces the capital base by 29.6 per cent.

8 NGR, r. 78.

9 NGR, r. 90.

10 This refers to straight-line depreciation. Regulatory depreciation is straight-line depreciation less the inflation indexation of the capital base.

Figure 2.1 Key drivers of changes in the capital base—AGN's revised proposal compared with AER's final decision ($ million, nominal)



Source: AER analysis.

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

Forecast net capex is a significant driver of the increase in the capital base. In our final decision, we approve $512.3 million ($2020–21)[11] of AGN's revised proposed $528.7 million ($2019–20) total net capex for the 2021–26 access arrangement period as conforming capex under the NGR.[12] This is 3.1 per cent lower than AGN's revised proposed capex. Refer to Attachment 5 for the discussion on forecast capex.

2.2 Assessment approach

We have not changed our assessment approach to the capital base from our draft decision. Attachment 2 (section 2.3) of our draft decision details that approach.[13]

---

[11] This amount is net of capital contributions and disposals, and excludes the half-year WACC adjustment.

[12] NGR, r. 79.

[13] AER, *Draft decision, Australian Gas Networks access arrangement 2021–26, Attachment 2 – Capital base*, November 2020, pp. 8-11.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
CCP/CCP24	Consumer Challenge Panel, sub-panel 24
CPI	Consumer Price Index
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
PTRM	post tax revenue model
RFM	roll forward model
RIN	regulatory information notice