



**FINAL DECISION**  
**Evoenergy**  
**Access Arrangement**

**2021 to 2026**

**Attachment 2**  
**Capital base**

April 2021

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## Note

This attachment forms part of the AER's final decision on the access arrangement that will apply to Evoenergy 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 7 – Corporate income tax

Attachment 12 – Demand

Attachment 13 – Capital expenditure sharing scheme

# Contents

<b>Note .....</b>	<b>2</b>
<b>Contents .....</b>	<b>3</b>
<b>2 Capital base .....</b>	<b>4</b>
<b>2.1 Final decision .....</b>	<b>4</b>
<b>2.2 Assessment approach.....</b>	<b>8</b>
<b>Shortened forms .....</b>	<b>9</b>

## 2 Capital base

The capital base roll forward accounts for the value of Evoenergy's regulated assets over the access arrangement period. The opening capital base value for a regulatory year within the 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).<sup>1</sup> 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 Evoenergy's opening capital base as at 1 July 2021 for the 2021–26 period. It also sets out our final decision on Evoenergy'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 \$376.7 million (\$ nominal) as at 1 July 2021 for Evoenergy. This amount is \$4.4 million (1.1 per cent) lower than Evoenergy's revised proposed opening capital base value of \$381.1 million as at 1 July 2021.<sup>2</sup> This reduction is due to updating the roll forward model (RFM) for 2020–21 actual consumer price index (CPI) that is now available.

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 2014–15 capex and the estimate approved in our 2016–21 decision.<sup>3</sup>

In the draft decision, we accepted Evoenergy's proposed opening capital base as at 1 July 2021 subject to a minor update to the 2014–15 actual inflation input in the RFM to be consistent with the value in the approved RFM for the 2016–21 period. We also updated the 2014–15 actual capex values in the RFM to be consistent with the annual reporting regulatory information notice (RIN) for that year. These updates resulted in a marginal reduction of \$0.4 million to Evoenergy's proposed opening capital base as at 1 July 2021. We also noted that the proposed capex for 2019–20 and 2020–21 were

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<sup>1</sup> The term 'rolled forward' means the process of carrying over the value of the capital base from one regulatory year to the next.

<sup>2</sup> Evoenergy, *Attachment 5.1 RFM*, January 2021.

<sup>3</sup> The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the value approved at the 2016–21 decision. Actual 2014–15 capex was included in Evoenergy's approved opening capital base at the last access arrangement decision as conforming capex. However, a small true-up value is calculated in the RFM for this final decision because the 2014–15 actual capex was subsequently revised by Evoenergy in its annual reporting RIN.

estimates. We expected that Evoenergy 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, Evoenergy adopted our draft decision updates to the opening capital asset base as at 1 July 2021. Evoenergy’s revised proposed opening capital base is \$381.1 million.<sup>4</sup> This is \$0.8 million (0.2 per cent) lower than our draft decision. The decrease is due to Evoenergy updating 2019–20 capex with actuals in its revised proposed RFM.

We have assessed Evoenergy’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. We have also confirmed with Evoenergy that its initial proposed estimated capex for 2020–21 remains appropriate.<sup>5</sup> 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 the revised proposed 2015–20 capex as conforming capex for the 2016–21 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 in the National Gas Rules (NGR).<sup>6</sup>

We have also updated the actual inflation input for 2020–21 with actual CPI in the RFM which became available after Evoenergy submitted its revised proposal. This update reduces the opening capital base value by about \$4.4 million (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 Evoenergy’s capital base for the 2016–21 period to determine the opening capital base as at 1 July 2021.

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<sup>4</sup> Evoenergy, *Attachment 5.2 PTRM*, January 2021.

<sup>5</sup> Evoenergy, *Response to AER information request IR019 RFM PTRM modelling issues (question 2 revised)*, 29 March 2021, p. 1.

<sup>6</sup> NGR, rr. 77(2)(b), 79(1).

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

	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21 <sup>a</sup>
Opening capital base	338.4	349.7	361.1	366.9	371.4	376.2
Net capex <sup>b</sup>	17.4	19.6	13.2	13.3	14.2	15.0
Indexation of capital base	5.7	5.2	6.9	6.5	6.8	3.2
Less: straight-line depreciation <sup>c</sup>	11.8	13.4	14.3	15.3	16.3	17.3
Interim closing capital base	349.7	361.1	366.9	371.4	376.2	377.1
Difference between estimated and actual capex in 2014–15 capex						–0.3
Return on difference for 2014–15 capex						–0.1
<b>Closing capital base as at 30 June 2021</b>						<b>376.7</b>

Source: AER analysis.

- (a) Based on estimated capex provided by Evoenergy.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI. The 2015–16 capex is included in the roll forward period as it was an interval of delay.
- (c) Adjusted for actual CPI. Based on forecast capex.

### ***Forecast closing capital base as at 30 June 2026***

We approve a forecast closing capital base value of \$380.9 million (\$ nominal) at 30 June 2026 for Evoenergy.<sup>7</sup> This is \$14.2 million (3.6 per cent) lower than the \$395.0 million in Evoenergy'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 Evoenergy over the 2021–26 period.

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<sup>7</sup> NGR, r. 78.

**Table 2.2 AER’s final decision on Evoenergy'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	376.7	384.0	388.6	387.9	385.1
Net capex <sup>a</sup>	15.1	13.7	9.5	8.3	7.8
Indexation of opening capital base	7.5	7.7	7.8	7.8	7.7
Less: straight-line depreciation	15.3	16.8	17.9	18.8	19.7
<b>Closing capital base</b>	<b>384.0</b>	<b>388.6</b>	<b>387.9</b>	<b>385.1</b>	<b>380.9</b>

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.<sup>8</sup>

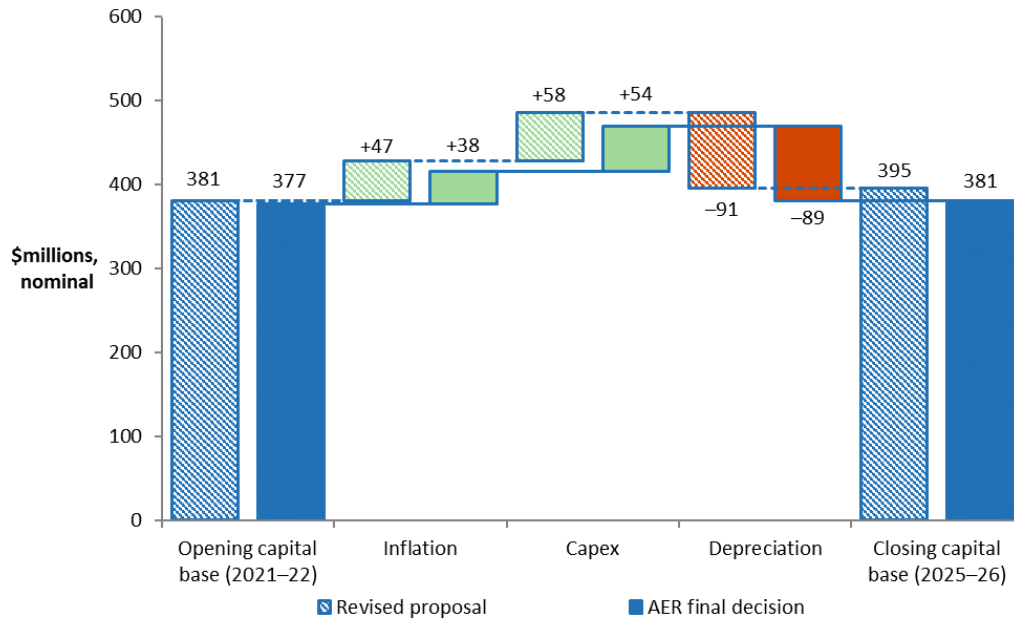
Figure 2.1 shows the key drivers of the change in Evoenergy's projected capital base over the 2021–26 period for this final decision. Overall, the closing capital base at the end of the 2021–26 period is forecast to be 1.1 per cent higher than the opening capital base at the start of that period, in nominal terms. The approved forecast net capex increases the capital base by 14.4 per cent, while expected inflation increases it by 10.2 per cent. Forecast depreciation,<sup>9</sup> on the other hand, reduces the capital base by 23.5 per cent.

<sup>8</sup> NGR, r. 90.

<sup>9</sup> 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—Evoenergy'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 \$50.9 million (\$2020-21)<sup>10</sup> of Evoenergy's revised proposed \$54.0 million total net capex for the 2021-26 period as conforming capex under the NGR.<sup>11</sup> This is 5.8 per cent lower than Evoenergy'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.<sup>12</sup>

<sup>10</sup> This amount is net of capital contributions and disposals, and excludes the half-year WACC adjustment.

<sup>11</sup> NGR, r. 79.

<sup>12</sup> AER, – *Draft Decision, Evoenergy 2021-26 Access Arrangement, Attachment 2 – Capital base*, November 2020, pp. 8-11.

## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	Capital expenditure
CPI	Consumer price index
NGR	National Gas Rules
PTRM	Post-tax revenue model
RFM	Roll forward model
RIN	Regulatory Information Notice
WACC	Weighted average cost of capital