

Draft decision

**Jemena Gas Networks (NSW) access
arrangement 2025 to 2030
(1 July 2025 to 30 June 2030)**

Attachment 2 – Capital base

November 2024

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1	29 November 2024	13

List of attachments

This attachment forms part of our draft decision on the access arrangement that will apply to Jemena Gas Networks (NSW) for the 2025–30 access arrangement period. It should be read with all other parts of this draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement (no attachment - covered in the 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 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

Attachment 11 – Non-tariff components

Attachment 12 – Demand

Attachment 13 – Capital expenditure sharing scheme

Contents

List of attachments	iii
2 Capital base	1
2.1 Draft decision.....	1
2.2 JGN's proposal	3
2.3 Assessment approach	5
2.4 Reasons for draft decision	8
2.5 Revisions	12
Glossary	13

2 Capital base

The capital base roll forward accounts for the value of regulated assets in Jemena Gas Networks' (JGN) distribution network in NSW 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).¹ Following this process, we arrive 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 blocks.

This attachment sets out our draft decision on JGN's opening capital base as at 1 July 2025 for the 2025–30 access arrangement period (period). It also sets out our draft decision on JGN's projected capital base for the 2025–30 period.

2.1 Draft decision

We determine an opening capital base value of \$3,863.0 million (\$ nominal) as at 1 July 2025 for JGN. This value is \$7.3 million (0.2%) lower than JGN's proposed opening capital base of \$3,870.3 million (\$ nominal) as at 1 July 2025.² This reduction is mainly due to the update we made to the estimated consumer price index (CPI) input for 2024–25 in the roll forward model (RFM). We have updated the estimated CPI for 2024–25 with the Reserve Bank of Australia (RBA) forecast published in its August 2024 *Statement on Monetary Policy* to reflect updated economic conditions.³ For our draft decision, we adopt an estimated CPI value of 3.00% for 2024–25, compared to JGN's proposed 3.20%. The CPI input for 2024–25 will be updated again to reflect the actual CPI published by the Australian Bureau of Statistics (ABS) for our final decision.

As the capital base must be maintained in real dollar terms by indexing for inflation, the effect of the lower estimated CPI for 2024–25 is a reduction to the opening capital base value as at 1 July 2025 by \$7.3 million (0.2%) compared to JGN's proposal, all else being equal.

We accept JGN's proposed method for calculating the opening capital base. In addition to the CPI update discussed above, we also made a few minor corrections to the inputs in the RFM. However, these corrections do not have a material impact on the opening capital base value as at 1 July 2025.

To determine the opening capital base as at 1 July 2025, we have rolled forward the capital base over the 2020–25 period to arrive at a closing capital base value at 30 June 2025 in accordance with our RFM. This roll forward process includes an adjustment at the end of the 2020–25 period to account for the difference between updated actual 2019–20 capex and

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 JGN, *Jemena Networks 2025 access arrangement proposal Plan, Attachment 7.7M - Roll Forward Model - 20240628 - Public*, June 2024.

³ RBA, *Statement on Monetary Policy, Table 3.1: Detailed Forecast Table*, August 2024, p. 57.

the estimate approved in the 2020–25 access arrangement.⁴ All other adjustments are applied as part of the final year adjustments at 30 June 2025 to establish the opening capital base value at 1 July 2025.⁵

Table 2.1 sets out our draft decision on the roll forward of JGN's capital base over the 2020–25 period.

Table 2.1 AER's draft decision on JGN's capital base for the 2020–25 period (\$ million, nominal)

	2020–21	2021–22	2022–23	2023–24 ^a	2024–25 ^b
Opening capital base	3,318.0	3,354.7	3,452.1	3,696.4	3,802.2
Net capex ^c	156.1	142.1	156.1	155.0	196.0
Inflation on opening capital base ^d	28.6	117.4	270.4	149.8	114.1
Less: straight-line depreciation ^e	148.0	162.1	182.1	199.0	187.9
Interim closing capital base	3,354.7	3,452.1	3,696.4	3,802.2	3,924.3
Difference between estimated and actual capex in 2019–20					–45.8
Return on difference for 2019–20 capex					–15.6
Closing capital base as at 30 June 2025					3,863.0

Source: AER analysis.

- (a) Based on estimated capex provided by JGN. We will update the capital base roll forward with actual capex in the final decision.
- (b) Based on estimated capex provided by JGN. We expect to update the capital base roll forward with a revised capex estimate in the final decision, and true-up the capital base for actual capex at JGN's next access arrangement review.
- (c) Net of disposals and capital contributions, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (d) We will update the capital base roll forward for actual CPI for 2024–25 in the final decision.
- (e) Adjusted for actual CPI. Based on forecast capex.

We determine a forecast closing capital base value as at 30 June 2030 of \$4,034.7 million (\$ nominal) for JGN. This is \$6.5 million (0.2%) lower than JGN's proposed closing capital base value of \$4,041.1 million (\$ nominal). This reduction is primarily driven by a lower forecast capex⁶ (Attachment 5) and a lower opening capital base as at 1 July 2025 determined in our draft decision. The reduction is partially offset by a lower forecast straight-

⁴ The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2020–25 access arrangement review.

⁵ This includes adjustments for asset reallocations for accelerated depreciation purposes. This is a capital base reallocation and does not affect the total value of the opening capital asset base at 1 July 2025.

⁶ Capex enters the capital base net of forecast disposals and capital contributions. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our draft decision on the forecast capital base also reflects our amendments to the rate of return for the 2025–30 period (Attachment 3).

line depreciation resulting from our draft decision to reduce JGN’s proposed accelerated depreciation amount for the 2025–30 period (Attachment 4). It is also driven by a higher expected inflation rate (Attachment 3) adopted in our draft decision compared to the value adopted by JGN in its proposal.

Table 2.2 sets out our draft decision on the forecast capital base values for JGN over the 2025–30 period.

Table 2.2 AER’s draft decision on JGN’s capital base for the 2025–30 period (\$ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30
Opening capital base	3,863.0	3,946.7	4,013.9	4,048.5	4,049.8
Net capex ^a	173.7	165.3	142.8	119.5	112.4
Inflation on opening capital base	110.1	112.5	114.4	115.4	115.4
Less: straight-line depreciation	200.1	210.6	222.6	233.5	243.0
Closing capital base	3,946.7	4,013.9	4,048.5	4,049.8	4,034.7

Source: AER analysis.

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

We accept JGN’s proposal to establish the opening capital base as at 1 July 2030 using the approved depreciation schedules based on forecast capex over the 2025–30 period.⁷ These depreciation schedules will be adjusted for actual inflation outcomes over this period.

2.2 JGN’s proposal

JGN proposed an opening capital base of \$3,318.0 million (\$ nominal) as at 1 July 2020. Rolling forward this capital base with actual/estimated capex and using depreciation based on forecast capex approved for the 2020–25 period, JGN proposed a closing capital base of \$3,870.3 million (\$ nominal) as at 30 June 2025.⁸

Table 2.3 sets out JGN’s proposed roll forward of its capital base during the 2020–25 period.

⁷ JGN, *Jemena Networks 2024–25 access arrangement proposal, Attachment 7.3 - Depreciation approach*, June 2024, p. 3.

⁸ JGN, *Jemena Networks 2024–25 access arrangement proposal, Attachment 7.7M - Roll Forward Model - 20240628 - Public*, June 2024.

Table 2.3 JGN’s proposed capital base for the 2020–25 period (\$ million, nominal)

	2020–21	2021–22	2022–23	2023–24 ^a	2024–25 ^a
Opening capital base	3,318.0	3,354.7	3,452.1	3,696.4	3,802.2
Net capex ^b	156.1	142.1	156.1	155.0	196.2
Inflation on opening capital base	28.6	117.4	270.4	149.8	121.7
Less: straight-line depreciation ^c	148.0	162.1	182.1	199.0	188.3
Interim closing capital base	3,354.7	3,452.1	3,696.4	3,802.2	3,931.8
Difference between estimated and actual capex in 2019–20					–45.8
Return on difference for 2019–20 capex					–15.7
Closing capital base as at 30 June 2025					3,870.3

Source: JGN, *Jemena Networks 2024–25 access arrangement proposal, Attachment 7.7M - Roll Forward Model - 20240628 - Public*, June 2024.

- (a) Based on estimated capex.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.
- (c) Adjusted for actual CPI. Based on forecast capex.

JGN proposed a forecast closing capital base as at 30 June 2030 of \$4,041.1 million (\$ nominal). This value reflects its proposed opening capital base, forecast capex, expected inflation, and depreciation (based on forecast capex) over the 2025–30 period.

Table 2.4 shows JGN’s projected capital base over the 2025–30 period.

Table 2.4 JGN’s proposed capital base for the 2025–30 period (\$ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30
Opening capital base	3,870.3	3,943.1	4,031.3	4,083.0	4,078.0
Net capex ^a	194.7	219.8	194.5	149.6	129.6
Inflation on opening capital base	108.0	110.0	112.5	113.9	113.8
Less: straight-line depreciation	229.9	241.6	255.4	268.4	280.3
Closing capital base	3,943.1	4,031.3	4,083.0	4,078.0	4,041.1

Source: JGN, *Jemena Networks 2024–25 access arrangement proposal, Attachment 7.6.2M - PTRM - Step 2 - 20240628*, June 2024.

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

JGN proposed to use forecast depreciation to determine the opening capital base as at the commencement of the 2030–35 period, consistent with the approach applied in the 2020–25 period.⁹

2.3 Assessment approach

Our approach to assessing JGN’s projected capital base is consistent with that adopted in previous gas access arrangement decisions made under the National Gas Rules (NGR).¹⁰ To determine the opening capital base, we developed a capital base RFM that the service provider must use in preparing its proposal.¹¹ In accordance with rules 77(2) and 78 of the NGR, we apply three steps to calculate the projected capital base:

- First, we confirm the value of the opening capital base for the first year of the 2020–25 period (in this case, 1 July 2020). This includes making an adjustment to account for any difference between actual and estimated capex in the final year of the previous period (in this case, 2019–20). This adjustment is made at the end of the 2020–25 period and must also remove any benefit or penalty associated with any difference between the estimated and actual capex for that year.¹²
- Second, the opening capital base as at 1 July 2020 is rolled forward to determine the closing capital base as at 30 June 2025. This closing capital base is also used as the value of the opening capital base for the 2025–30 period as at 1 July 2025. This involves:¹³
 - adding conforming actual capex for each year – this requires assessing the capex and determining that it is consistent with the provisions of the 2020–25 access arrangement, data from historical Regulatory Information Notices (RINs), as well as the definition of 'conforming capital expenditure' in the NGR¹⁴
 - removing depreciation for each year based on the approach approved for the 2020–25 period¹⁵
 - adding any speculative capex or previously redundant assets that will be reused during the 2025–30 period
 - removing any redundant assets and disposals during the 2020–25 period
 - indexing the roll forward each year for actual inflation.

⁹ JGN, *Jemena Networks 2024–25 access arrangement proposal, Attachment 7.3 - Depreciation approach*, June 2024, p. 3.

¹⁰ For example, AER, *Final decision: Australian Gas Networks (SA) access arrangement 2021–26*, April 2021; AER, *Final decision: Evoenergy access arrangement 2021–26*, April 2021; AER, *Final decision: Amadeus Gas Pipeline access arrangement 2021–26*, April 2021. AER, *Final decision: Australian Gas Networks (Victoria and Albury) 2023–28 – Attachment 2 Capital base* June 2023, p. 8; AER, *Final decision: Multinet Gas - Access arrangement 2023–28 – Attachment 2 Capital base*, June 2023, p. 9.

¹¹ NGR, rr. 72(3) and 75A(2).

¹² NGR, r. 77(2)(a).

¹³ NGR, r. 77(2).

¹⁴ NGR, r. 79(1).

¹⁵ In this case, forecast depreciation approach as approved for JGN at the 2020–25 access arrangement period.

- Third, the capital base is projected over the 2025–30 period by rolling forward the opening capital base as at 1 July 2025 to 30 June 2030. This involves performing the following on the opening capital base:¹⁶
 - adding forecast conforming capex for each year (net of any forecast capital contributions)
 - removing forecast depreciation for each year
 - removing the forecast value of assets to be disposed of during the 2025–30 period
 - indexing the capital base of the roll forward each year for expected inflation.

2.3.1 Interrelationships

The size 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) building blocks.¹⁷ 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 amounts. 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 capex¹⁸
- 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 throughout the access arrangement period.

Depreciation reduces the capital base. The depreciation amount depends on the size of the opening capital base, the forecast net capex and the depreciation schedules applied to the assets.

¹⁶ NGR, r. 78.

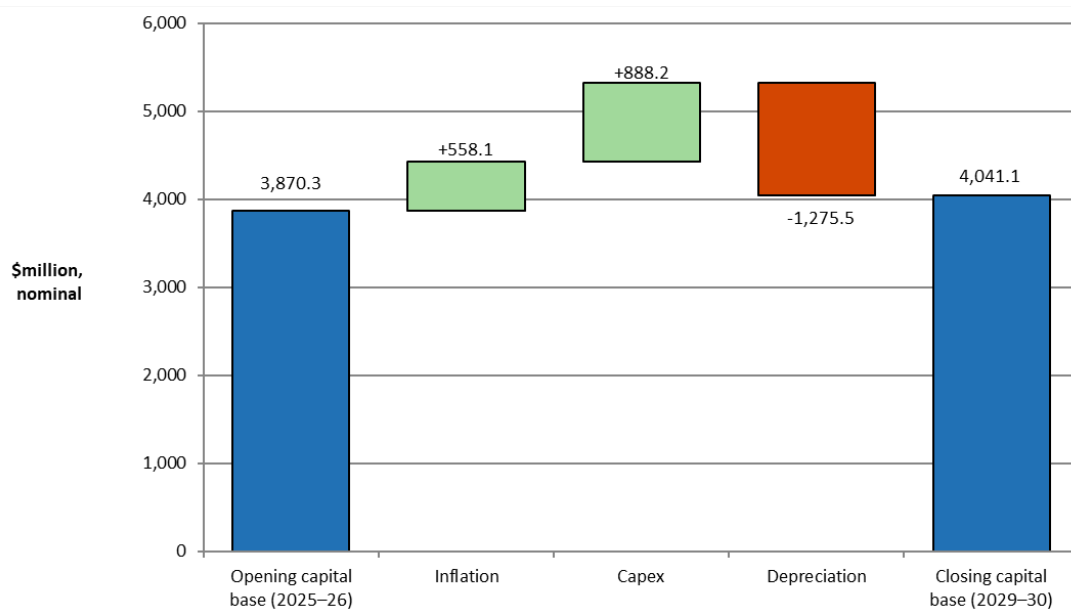
¹⁷ The size of the capital base also impacts the benchmark debt raising cost. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

¹⁸ Net capex is gross capex less disposals and capital contributions.

We maintain the capital base in real terms by indexing for inflation. A nominal rate of return (or WACC) is multiplied by the opening capital base to produce the return on capital building block.¹⁹ To prevent double counting of inflation through the nominal WACC and indexed capital base, the regulatory depreciation building block has an offsetting reduction for indexation of the capital base.²⁰ Indexation of the capital base and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the capital base was un-indexed. The implications of our approach to indexing the value of the capital base on revenues are discussed further in Attachment 4.

Figure 2.1 shows the key drivers of the change in the capital base over the 2025–30 period as proposed by JGN. Overall, the closing capital base at the end of the 2025–30 period would be 4.4% higher than the opening capital base at the start of that period based on the proposal, in nominal terms.²¹ The proposed forecast net capex increases the capital base by about 23%, while expected inflation increases it by about 14%. Forecast depreciation, on the other hand, reduces the capital base by about 33%.

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



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.

Source: JGN, *Jemena Networks 2024–25 access arrangement proposal, Attachment 7.6.2M - PTRM - Step 2 - 20240628*, June 2024.

JGN’s proposed forecast straight-line depreciation for the 2025–30 period is \$1,275.5 million (\$ nominal). The depreciation amount largely depends on the proposed level of accelerated depreciation and the opening capital base. The opening capital base, in turn, depends on

¹⁹ NGR, r. 87.

²⁰ If the asset lives are extremely long, such that the capital base depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the capital base depreciation in such circumstances. Please also refer to section 4.3.1 of Attachment 4 of this draft decision for further explanation of the offsetting adjustment to the depreciation building block.

²¹ In real terms, the capital base decreases by 9.0% over the 2025–30 period.

capex in the past.²² Depreciation associated with forecast capex is a relatively smaller amount. For this draft decision, while we accept JGN’s proposal for accelerated depreciation, we have reduced the proposed amount to \$156 million (\$2024–25) for the 2025–30 period. This is discussed in Attachment 4.

Forecast net capex is the largest driver of the increase in the capital base. In this draft decision, we reduced JGN’s proposed total net capex for the 2025–30 period from \$888.2 million (nominal) to \$713.7 million (nominal).²³ Our review of JGN’s forecast capex is set out in Attachment 5 of this draft decision.

A 10% increase in the opening capital base causes revenues to increase by about 1.6% (\$ nominal). However, the impact of the annual change in capital base on revenues depends on the source of the capital base change, as some drivers affect more than one building block cost.²⁴

2.4 Reasons for draft decision

We determine an opening capital base value of \$3,863.0 million (nominal) as at 1 July 2025 for JGN, a decrease of \$7.3 million (0.2%) from the proposed value. We forecast a closing capital base value of \$4,034.7 million by 30 June 2030. This represents a reduction of \$6.5 million (0.2%) compared with JGN’s proposal. This results from our draft decision on the inputs used to determine the projected capital base in the PTRM. We are satisfied this amendment 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 over the 2020–25 period

JGN has established the opening capital base as at 1 July 2025 using our RFM. Therefore, we reviewed the key inputs of JGN’s proposed RFM such as actual inflation, rate of return, gross capex values, asset disposals, forecast depreciation amounts and asset lives. We found these inputs were generally correct and reconciled with relevant data sources such as ABS data, annual reporting RINs and the 2020–25 decision models.²⁵ However, we identified a couple of the proposed inputs required updating with the newly available data and minor corrections.

Therefore, we have made the following amendments to JGN’s proposed RFM inputs:

- We updated the estimated CPI for 2024–25 to reflect more up-to-date economic conditions. JGN’s proposal used 3.20% as the estimated CPI input for 2024–25,

²² At the time of this draft decision, the roll forward of JGN’s capital base includes estimated capex values for 2023–24 and 2024–25. We expect to update the 2023–24 estimated capex with actuals in the final decision. We may also update the 2024–25 estimated capex with a revised estimate in the final decision.

²³ This amount is net of asset disposals and capital contributions, and inclusive of half-year WACC adjustment.

²⁴ If capex causes the capital base to increase—return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the capital base to increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in the depreciation allowance. Inflation naturally increases the capital base in nominal terms.

²⁵ At the time of this draft decision, the roll forward of JGN’s capital base includes estimated capex values for 2023–24 and 2024–25. We expect to update the 2023–24 estimated capex with actuals in the final decision. We may also update the 2024–25 estimated capex with a revised estimate in the final decision.

reflecting the RBA’s forecast published in February 2024.²⁶ For this draft decision, we have updated this value to 3.00%, reflecting the RBA’s forecast published in August 2024.²⁷ The updated CPI input has reduced the opening capital base value as at 1 July 2025 by \$7.3 million.

- We amended the 2022–23 capex for the ‘Existing pigging and inspection costs’ asset class, to be consistent with the values reported in the annual reporting RIN for that year.²⁸

In addition, we have amended the inputs associated with the proposed accelerated depreciation in the RFM to reflect our draft decision on this aspect of JGN’s proposal.²⁹ However, we note that these input changes do not affect the total opening capital base value as at 1 July 2025:

- While we accept the proposed new ‘Future of gas MP services’ asset class, we amended the associated final year asset adjustment capital base reallocation amount to \$182.0 million (\$ nominal) as at 1 July 2025 to target a reduced accelerated depreciation amount of \$156 million (\$2024–25).³⁰
- We amended the remaining asset life at 30 June 2025 to 35.3 years from JGN’s proposed 35.0 years for the ‘MP Services’ asset class in the final year asset adjustments section of the RFM. This input reflects the remaining life of the pipeline assets that are subject to accelerated depreciation. We have recalculated this remaining life to reflect the standard approach set out in our RFM template.³¹ JGN has agreed with this amendment in its response to our information request.³²

2.4.1.1 Conforming capital expenditure in the 2020–25 period

Our assessment of conforming capex is set out in Attachment 5. In determining JGN’s opening capital base as at 1 July 2025, we assessed whether its proposed capex amounts for 2019–20 and the 2020–25 period are properly accounted for in the capital base roll forward.

We accept JGN’s actual capex for 2019–20 as conforming capex. The 2019–20 capex was an estimated value at the time we made our 2020–25 final decision. We have assessed

²⁶ RBA, *Statement on Monetary Policy, Appendix: Forecasts*, February 2024.

²⁷ RBA, *Statement on Monetary Policy, Appendix: Forecasts*, August 2024.

²⁸ The impact of this change is less than \$1.

²⁹ Our decision on accelerated depreciation is discussed in Attachment 4.

³⁰ This is a capital base reallocation and does not affect the total value of the opening capital asset base at 1 July 2025. Note the asset adjustment value of \$182.0 million will not match the target accelerated depreciation amount of \$156 million over the 2025–30 period due to asset adjustment offsets in the RFM depreciation tracking module.

³¹ The remaining asset life for the ‘MP Services’ asset class as at 30 June 2025 for the final year asset adjustment section of the RFM is used to account for the change in remaining asset life of the assets before and after they are re-allocated from the existing ‘MP Services’ asset class to the new ‘Future of Gas MP Services’ asset class for accelerated depreciation purposes. It does not impact the value of the re-allocated assets and therefore has no dollar impact on the closing capital base value as at 30 June 2025. Please see section 4.4.1 of Attachment 4 of this draft decision for further details.

³² JGN, *Response to AER IR#003*, 20 August 2024, p. 1.

whether this is conforming capex as part of this access arrangement review.³³ We also accept JGN's actual capex for 2020–21 to 2022–23 as conforming capex.³⁴ Therefore, we accept that actual conforming capex for these years have been properly accounted for in the proposed capital base roll forward consistent with the requirements of the NGR.³⁵

However, we note that the proposed capex for 2023–24 and 2024–25 are estimates. We expect JGN will update the capex for 2023–24 with actuals and may revise the capex estimate for 2024–25 in its revised proposal. We will assess whether the actual capex for 2023–24 is conforming capex in our final decision for the 2025–30 access arrangement period. We will assess whether JGN's actual capex for 2024–25 is conforming capex under the NGR and adjust for any differences between actual and estimated capex in the subsequent (2030–35) access arrangement review.³⁶

2.4.2 Projected capital base during the 2025–30 period

We forecast a closing capital base of \$4,034.7 million (\$ nominal) as at 30 June 2030 for JGN, which represents a reduction of \$6.5 million (or 0.2%) compared to JGN's proposed amount of \$4,041.1 million. This results from our draft decision on the inputs for determining the projected capital base in the PTRM. We have amended the inputs in the following ways:

- we reduced the opening capital base as at 1 July 2025 by \$7.3 million (\$ nominal) or 0.2% mainly due to an updated estimate for 2024–25 CPI
- we updated JGN's proposed expected inflation rate of 2.79% per annum for the 2025–30 period to 2.85% per annum (Attachment 3). Compared to the proposal, our draft decision results in an increase to the indexation of the capital base component for the 2025–30 period by \$9.6 million (\$ nominal) or 1.7%³⁷
- we reduced JGN's proposed forecast straight-line depreciation amount for the 2025–30 period by \$165.7 million (\$ nominal) or 13.0% (Attachment 4). This is primarily driven by our draft decision to reduce JGN's proposed accelerated depreciation of \$300 million to \$156 million (\$2024–25)³⁸
- we reduced JGN's proposed forecast capex for the 2025–30 period by \$174.5 million (\$ nominal) or 19.6% (Attachment 5).

Figure 2.2 shows the key drivers of the change in JGN's capital base over the 2025–30 period for this draft decision. Overall, the closing capital base at the end of the 2025–30 period is forecast to be 4.4% higher than the opening capital base at the start of that period, in nominal terms. The approved forecast net capex and expected inflation increase the

³³ NGR, r. 77(2)(b).

³⁴ See section 5.1 of Attachment 5 of this draft decision for details.

³⁵ NGR, r. 77(2)(b).

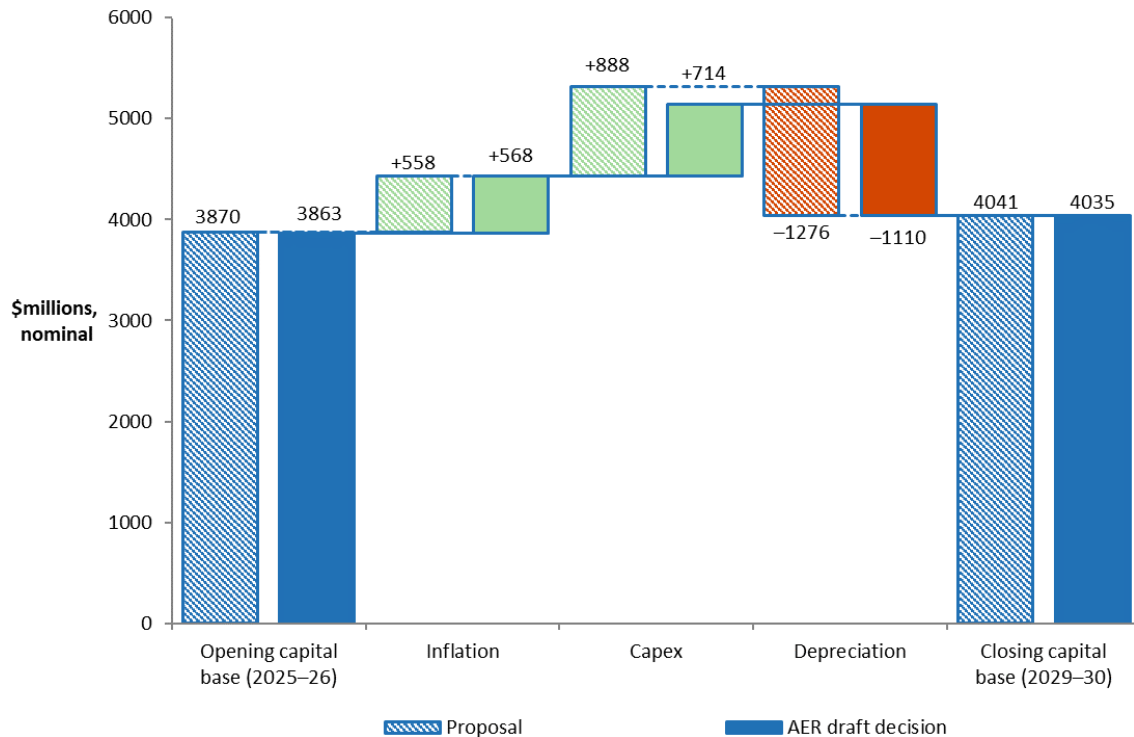
³⁶ NGR, rr. 77(2)(b), 79.

³⁷ The increase in the indexation to the capital base is primarily due to an increase in the expected inflation rate which more than offsets the lower opening capital base in our draft decision.

³⁸ Regulatory depreciation is the net total of straight-line depreciation and inflation indexation of the capital base. Our draft decision to reduce JGN's proposed forecast capex has also reduced straight-line depreciation.

capital base by about 18% and 15%, respectively. Forecast depreciation, on the other hand, reduces the capital base by about 29%.

Figure 2.2 Key drivers of changes in the capital base over the 2025–30 period – JGN’s proposal compared with AER’s draft decision (\$ million, nominal)



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.

Source: AER analysis.

2.4.3 Capital base at commencement of 2030–35 period

The capital base at the commencement of the 2030–35 period will be subject to adjustments consistent with the NGR. The adjustments for JGN include (but are not limited to) actual inflation and approved depreciation over the 2025–30 period.

We accept JGN’s proposal to establish the opening capital base as at 1 July 2030 using the approved depreciation schedules based on forecast capex over the 2025–30 period.³⁹ This is consistent with the requirement in JGN’s current access arrangement which requires that depreciation be based on forecast capex.⁴⁰ We approved such an approach in our recent gas access arrangement decisions.⁴¹ This approach is also consistent with the approach outlined

³⁹ JGN, *Jemena Networks 2024–25 access arrangement proposal, Attachment 7.3 - Depreciation approach* -, 29 June 2024, p. 3.

⁴⁰ AER, *Final Decision JGN Access Arrangement 2020–25, Attachment 2 – Capital base*, November 2017, p. 8.

⁴¹ AER, *Final decision: Amadeus Gas Pipeline access arrangement 2021–26*, April 2021, p. 23; AER, *Roma to Brisbane Pipeline access arrangement 2022–27, Overview*, May 2022, p. 32. AER, *Final decision: APA Victorian Transmission System - Access arrangement 2023–27*, December 2022, p. 9; AER, *Final decision: Australian Gas Networks (Victoria and Albury) 2023–28*, July 2023, p. 8; AER, *Final decision: Multinet Gas - Access arrangement 2023–28*, July 2023, p. 9.

in our *Access Arrangement Guideline*.⁴² The amount of the forecast depreciation is to be approved by us in the final decision for the 2025–30 period.

2.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 2.5.

Table 2.5 JGN's capital base revisions

Revision	Amendment
Revision 2.1	Make all necessary amendments to reflect this draft decision on the roll forward of the capital base for the 2020–25 access arrangement period, and to reflect this draft decision on the projected capital base for the 2025–30 access arrangement period.

⁴² AER, *Final access arrangement guideline*, March 2009, pp. 61–62.

Glossary

Term	Definition
ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
JGN	Australian Gas Networks (Albury and Victoria)
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
