

Final decision

Multinet Gas Networks
Gas distribution access arrangement
1 July 2023 to 30 June 2028

Attachment 10 – Reference tariff variation
mechanism

June 2023

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

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10 Reference tariff variation mechanism

The National Gas Rules (NGR) require that the Access Arrangement include a reference tariff variation mechanism.¹ The reference tariff variation mechanism may provide for variation of a reference tariff as a result of, amongst other things, a cost pass through for a defined event.² This attachment sets out our consideration of the reference tariff variation mechanism proposed by Multinet Gas Networks (MGN), including cost pass through events proposed by MGN.³ The reference tariff variation mechanism:

- permits building block revenues to be recovered smoothly over the access arrangement period subject to any differences between forecast and actual demand
- accounts for actual inflation
- accommodates other reference tariff adjustments that may be required, such as for an approved cost pass through event
- sets administrative procedures for the approval of any proposed changes to reference tariffs – that is, updating tariffs each year.

The cost pass through mechanism allows us to vary reference tariffs following the occurrence of a specified event which materially increases or decreases the cost of providing the reference service. The inclusion of a pass through mechanism recognises a Service Provider can face risks beyond its control, which may have a material impact on costs.

10.1 Annual reference tariff variation mechanism

In this section we set out our final decision on:

- MGN's proposed cost recovery approach for Safeguard Mechanism costs
- the true-up mechanism for small customer (residential) abolishment costs, as described in attachment 9 of this final decision.

10.1.1 Final decision

Our final decision accepts the Victorian distributors' revised proposals to manage Safeguard Mechanism costs through amendments to the tariff control formulae. Minor amendments have been made to the tariff control formula and Safeguard Mechanism factor, in part to achieve consistency across the three Victorian distributors.

We have decided that the cost of small customer connection abolishments (approximately \$950) should be recovered partly through a discounted, per-customer ancillary reference service tariff of \$220, with the balance of abolishment costs recovered from all gas customers as part of the haulage tariff. We consider that this approach requires inclusion of a "true up mechanism" in the control mechanism for haulage tariffs to respond to differences

¹ National Gas Rules, rule 92.

² For a full discussion of the requirements for the reference tariff variation mechanism, see AER, AusNet 2023-28 - Draft Decision - Attachment 10 - Reference tariff variation mechanism - December 2022, pp. 1-3.

³ This discussion relates only to reference tariffs for haulage services. Ancillary reference services are regulated under individual price caps.

between forecast and actual abolishment costs. The true up will be for both quantity and price to accommodate existing uncertainty of the abolishment forecast volumes and costs.

10.1.2 MGN’s revised proposal

In their revised proposals, the Victorian distributors including MGN, proposed an additional factor be included in the reference tariff variation formulae in response to the Safeguard Mechanism reforms aimed to help industry reduce carbon dioxide equivalent (CO₂-e) emissions in line with Australia's climate targets. These reforms require Australia's largest greenhouse gas emitters to keep their net emissions below an emissions limit (a baseline) set by the Clean Energy Regulator.

Natural gas Network Service Providers, including the Victorian distributors, are subject to the Safeguard Mechanism. It applies to facilities with scope 1⁴ covered emissions greater than 100,000 tonnes CO₂-e per financial year. Covered emissions include direct emissions from fugitives (e.g. leaks from gas networks), fuel combustion (including gas used to fuel compressors), waste disposal and industrial processes such as cement and steel making.

The Victorian distributors submitted that they will incur costs to ensure that net emissions from their networks remain within their baselines.⁵ If net emissions are not reduced below their baselines civil penalties would be incurred.

The distributors submitted that they expect costs incurred to comply with Safeguard Mechanism requirements will be lower than the materiality threshold for cost pass through events in the short term, though compliance costs will rise each year to 2030. MGN proposed amendments to the reference tariff variation mechanism formulae for haulage tariffs to capture these additional costs in its reference tariffs, rather than via a cost pass through.

The distributors set out their proposed changes to the tariff control formula in their revised proposals.⁶

10.1.3 Stakeholder submissions

There were no submissions received on the revised proposals about MGN’s Safeguard Mechanism proposal. This topic was not discussed at the distributor’s Retailer Reference Group on 21 February 2023 which was attended by AER staff.

10.1.4 Assessment approach

We have discussed the assessment approach relevant to the safeguard mechanism and true up of abolishment costs in our draft decision.⁷

⁴ Scope 1 greenhouse gas emissions are the emissions released to the atmosphere as a direct result of an activity, or series of activities at a facility level. Scope 1 emissions are sometimes referred to as direct emissions.

⁵ MGN - Revised Final Plan 2023-28 - Attachment 14.4 - Response on Revenue and Pricing, p.6.

⁶ MGN - Revised Final Plan 2023-28 - Attachment 14.4 - Response on Revenue and Pricing, pp. 10-11.

⁷ AER, MGN 2023-28 - Draft Decision - Attachment 10 - Reference tariff variation mechanism - December 2022, pp. 1-3.

10.1.5 Interrelationships

We have discussed the interrelationships relevant to the safeguard mechanism and true up of abolishment costs in our draft decision.⁸

10.1.6 Reasons for draft decision

10.1.6.1 Safeguard Mechanism

The Safeguard Mechanism, underpinned by the National Greenhouse and Energy Reporting Scheme, commenced on 1 July 2016 and the reforms will commence on 1 July 2023. While some high-level elements of the reformed scheme are known and are described below, scheme details have not yet been finalised.

The distributors anticipate that under the reforms, they will incur Safeguard Mechanism liabilities each year from 2023-24. The distributors submitted that under the current arrangements their emissions are unlikely to exceed the baseline. That is, the distributors have ‘headroom’ under their current baselines. The key change in the proposed reforms is resetting the baseline to a lower level reflecting the distributors’ current level of emissions, as well as the introduction of a baseline decline rate of 4.9 percent each year from 2024-25 to 2030.

The distributors can meet their baseline by reducing emissions on-site or buying and surrendering domestic offsets, in the form of Australian Carbon Credit Units (carbon credits) or Safeguard Mechanism Credits (credits from parties whose emissions are below their baseline). Carbon credits will be available for purchase at a maximum of \$75 per tonne of CO₂-e capped price in 2023-24, increasing with CPI plus 2 per cent each year if prices reach the cap. The cost containment measure will be reviewed in 2026-27.

The distributors are investigating emissions reduction opportunities but have advised that beyond mains replacement activities already undertaken or proposed, opportunities to reduce emissions are limited. They are assessing the marginal cost of emissions reduction activities against the cost of purchasing prescribed units. They advise that in most cases it will be more cost effective to buy carbon credits.

We consider that using the reference tariff control mechanism is the least costly and least administratively burdensome approach available to reimburse distributors for the increase in the cost of providing pipeline services that will arise as a result of the Safeguard Mechanism. We accept that carbon credit costs incurred (excluding penalties for failing to meet carbon credit acquittal obligations) in meeting the Safeguard Mechanism requirements, including reasonable administrative costs, are costs reasonably incurred in providing pipeline services, that should be recovered by distributors. We consider this approach:

- is likely to minimise the cost burden on gas customers by passing through only costs incurred – this will ensure no over- or under-recovery of revenues

⁸ AER, MGN 2023-28 - Draft Decision - Attachment 10 - Reference tariff variation mechanism - December 2022, p. 3.

- minimises administrative burden for the distributors by dealing with the issue via the control mechanism, akin to a jurisdictional scheme – avoiding the administrative costs of annual cost pass through applications.

Should the Victorian distributors achieve credits by emitting less than their baseline in any year of the 2023–28 period, and sell those credits, we require the revenue earned to be returned to customers via the tariff control formula Safeguard Mechanism factor. That is, the Safeguard Mechanism factor will be symmetrical. It will recover eligible costs from customers but will also return value to customers should the distributors achieve emissions below their baselines.

We note that existing cost pass through events defined in Access Arrangements would not facilitate recovery of Safeguard Mechanism costs. This is because existing events, such as the regulatory change event, would be triggered upon the establishment of the amended Safeguard Mechanism arrangements. However, in the early years of its application, Safeguard Mechanism costs will not meet the materiality threshold for the regulatory change pass through event. By the time Safeguard Mechanism costs become material under the cost pass through framework the trigger event will be too far in the past for the costs to be eligible for recovery as a regulatory change event.

For certainty, we do not accept costs associated with penalties being passed through to customers. Penalties are excluded from the tariff control formula and true up adjustments. The Victorian distributors' shareholders will be responsible for any penalties incurred for non-compliance or enforcement. The distributors have indicated they support this principle and do not propose to pass through any penalty costs, should they be incurred.⁹

MGN has further indicated it proposes to recover only permit / certificate / credit costs and administrative costs incurred in procuring and acquitting the above. Table 10-1 sets out MGN's expected Safeguard Mechanism annual costs.

Table 10-1 Expected Safeguard Mechanism annual costs

2023–24	2024–25	2025–26	2026–27	2027–28
\$0.9m	\$1.7m	\$2.5m	\$3.5m	\$4.4m

Note: MGN data based on the proposed credit price cap of \$75 inflated each year by CPI + 2%. MGN also incorporated \$100,000 in annual administrative costs associated with purchasing and acquitting credits.

Source: MGN – information request #031 – Safeguard mechanism – 20230329.

The control mechanism approach is an ex-post approach where the distributors would:

- incur the Safeguard Mechanism costs in year 1 (2023–24)
- report estimated Safeguard Mechanism costs to us ahead of year 2 via annual pricing proposals and incorporate the costs in haulage reference tariffs for year 2 (2024–25)
- report the full year 1 actual emissions costs ahead of year 3 (2025–26) via annual pricing proposals and true up year 3 haulage tariffs to account for the actual amounts if necessary.

⁹ MGN – information request #031 – Safeguard mechanism – 20230329

This approach is relatively simple to administer. We require invoices from the distributors as evidence of costs being incurred and we will reconcile costs reported to us through this approach using regulatory information notice data (which is subject to audit assurance). We also require the distributors to submit to us receipts for any revenues earned by selling credits created by emitting less than their baseline in a given year.

The Safeguard Mechanism factor proposed by the distributors included a $\frac{3}{2}$ fraction which reflected an application of the weighted average of cost capital (WACC) of 18 months, rather than 12 months. While we accept that costs incurred in one year and recovered in the following year should be adjusted by the time value of money, WACC, we do not agree that 18 months of adjustment is appropriate. Our final decision is to delete the $\frac{3}{2}$ and instead specify only a 12-month application of WACC within the formula. We note that staff of the Victorian distributors agreed to this approach.¹⁰

Our final decision on the tariff control formula, which includes a Safeguard Mechanism factor, is set out in figure 10-1.

10.1.6.2 True up of Abolishment Costs

Our final decision is to insert a true up mechanism into the control mechanism to deal with uncertainty surrounding abolishment costs. As discussed above, abolishment costs will be funded partly by a per-customer tariff of \$220, with the remainder of the actual costs funded through an ex-ante opex allowance for the haulage reference tariff. Setting the abolishment opex allowance ex ante requires forecasts of (a) the number of customers who will seek abolishment, as well as (b) the actual cost to the distributor of abolishment. The actual number of customers who abolish their connections, and the costs to distributors of performing those abolishments, may differ from the forecasts.

This true up mechanism will be for higher or lower quantities and for a lower price per unit compared to the abolishment ex ante opex allowance. The allowance will fund around $\frac{3}{4}$ of the distributors' forecast small customer abolishment costs. The true up will be given effect through the distributors' annual pricing proposals and our assessment of them, ahead of years 2 to 5 of the 2023–28 period.

With respect to details of the true up mechanism, we are setting a cap for the total cost of undertaking a small customer abolishment of \$950 for AGN and MGN and \$822.44 for AusNet. Our final decision is to set the abolishment ancillary reference service tariff at \$220. The balance between \$220 and the abolishment cost cap for each network, multiplied by the number of forecast of abolishments undertaken each year, will be funded by the opex allowance.

For the true up of quantities, should the actual number of abolishments undertaken in a given year be either higher or lower than forecasts underpinning the distributors' abolishment opex allowances, haulage reference tariffs for the following year will be adjusted up or down as necessary using estimated quantities. Estimates will be necessary because annual pricing proposals are submitted to us in advance of the end of the year in which costs will be

¹⁰ AGN(Vic) – information request #037 – Safeguard mechanism – 20230427, AusNet – information request #034 – Safeguard mechanism – 20230428 & Multinet (Vic) – information request #034 – Safeguard mechanism – 20230427

incurred. A further true up, using actual costs incurred, will take place in the second year after costs are incurred. In this way customers will pay no more than necessary for haulage services but distributors will also have opportunity to recover their efficient costs.

Should Energy Safe Victoria approve a lower cost abolishment method the cost reduction will be passed through to customers.

Our approved final decision for the haulage reference service tariff control formula, incorporating the Abolishment factor is set out in figure 10-1.

10.1.6.3 Tariff control formula

Our final decision is to accept the distributors' proposed tariff control formula and Safeguard Mechanism factor set out in their revised proposals with minor amendments and with the addition of the abolishment factor.

For the Abolishment factor we have added to the tariff control formula a new A factor for abolishment. The new A factor is separately defined (as the new Carbon 'C' factor is separately defined) and is the sum of:

- the difference between the abolishment forecast (incorporated in the opex allowance) for year t-1 and estimated costs (submitted to the AER ahead of year t) for year t-1
- the difference between abolishment estimates (submitted to AER ahead of year t-1) for year t-2 and the actual volume (submitted to the AER ahead of year t) for year t-2.

Our final decision is to insert a paragraph in the Access Arrangement stating:

“The per unit cost used to calculate the abolishment opex allowance is \$950 (\$2022-23) escalated annually by CPI. This cost relates to abolishment, incorporating digging down to the customer's connecting T intersection, shutting off gas to the customer's property, removing the connecting pipe if possible, removing the customer's meter and making the site safe, consistent with Safety Cases approved by Energy Safe Victoria. Should Energy Safe Victoria approve one or more alternative abolishment methods with lower per unit costs, the distributor must incorporate that lower cost in the A factor true up with the effect of reducing haulage reference tariffs, while accounting for the \$220 (\$2022-23) escalated annually by CPI per unit recovered through the ancillary reference service tariff.”

Figure 10-1 AER approved Tariff Control Formula and Safeguard Mechanism factor and Abolishment True-up Factor

Tariff Control Formula

The following formula applies to Tariffs V, L and D:

$$(1 + \Delta CPI_t)(1 - X_t)(1 + PT_t)(1 + C_t)(1 + A_t) \geq \frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}}$$

where:

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter in year t-2 to the December quarter in year t-1, calculated using the following method:

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in year $t - 1$

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in year $t - 2$

minus one;

If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

t is the year for which tariffs are being set;

X_t is the X factor for each financial year of the 2023/24-27/28 Access Arrangement Period as determined in the PTRM as approved in the AER's final decision, and annually revised for the return on debt update calculated for the relevant year during the Access Arrangement Period in accordance with that approved in the AER's final decision;

PT_t is the cost pass through factor for year t calculated as outlined in the Access Arrangement;

C_t is the Safeguard Mechanism adjustment for year t calculated as outlined in the Access Arrangement;

n is the number of different Reference Tariffs;

m is the different components, elements or variables ("components") comprised within a Reference Tariff;

p_t^{ij} is the proposed component j of Reference Tariff i in financial Year t ;

p_{t-1}^{ij} is the prevailing component j of Reference Tariff i in financial Year $t - 1$;

q_{t-2}^{ij} is the verified annual quantity of component of Reference Tariff i sold in financial Year $t - 2$ (expressed in the units in which that component is expressed (e.g., GJ)); and

A_t is the Abolishment True-up adjustment to the Distribution price control in Regulatory Year t as determined below.

Safeguard Mechanism

The Safeguard Mechanism Factor is:

C_t is the Safeguard Mechanism adjustment to the Distribution price control in Regulatory Year t for the Service Provider as determined below. For the purpose of this formula the Safeguard amount includes all eligible costs incurred in meeting Safeguard Mechanism obligations under the *National Greenhouse and Energy Reporting Act 2007*.

Calculation of the Safeguard Mechanism factor:

The Safeguard Mechanism Factor C_t , for the Service Provider is:

$$C_t = \frac{(1 + C'_t)}{(1 + C'_{t-1})} - 1$$

where:

If *financial year t* is any year in the AA period

$$C'_t = \frac{cf_{t-1}(1 + realWACC_t)(1 + \Delta CPI_t) + \Delta cf_{t-2}(1 + realWACC_{t-1})(1 + realWACC_t)(1 + \Delta CPI_{t-1})(1 + \Delta CPI_t)}{(1 + \Delta CPI_t)(1 - X_t)(1 + PT_t)(1 + A_t) \sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}}$$

C'_{t-1} if financial year *t* is the financial year ending 30 June 2024, the value is zero; and

if financial year *t* is after the financial year ending 30 June 2024, C'_{t-1} is the value of the C_t determined in financial year *t* – 1.

cf_{t-1} is the estimate of the Safeguard mechanism costs incurred by the Service Provider for the financial year ending June of the financial year *t* – 1.

Δcf_{t-2} is the actual Safeguard mechanism cost for regulatory year *t* – 2 less the estimated Safeguard mechanism cost for financial year *t* – 2. For the avoidance of doubt, the estimated Safeguard mechanism cost for financial year *t* – 2 is the same as cf_{t-1} determined for financial year *t* – 1

$realWACC_t$ is the real vanilla weighted average cost of capital as set out in this final decision and updated annually within the PTRM for financial year *t*

$realWACC_{t-1}$ is the real vanilla weighted average cost of capital as set out in this final decision and updated annually within the PTRM for financial year *t* – 1

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter in year *t* – 2 to the December quarter in year *t* – 1, calculated using the following method:

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in year *t* – 1

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in year *t* – 2

minus one;

If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

ΔCPI_{t-1} is the annual percentage change in CPI determined for year *t* – 1;

t is the year for which tariffs are being set;

X_t is the X factor for each financial year of the 2023/24-2027/28 Access Arrangement period as determined in the PTRM as approved in the AER's final decision, and annually revised for the return on debt update calculated for the relevant financial year during the Access Arrangement period in accordance with that approved in the AER's final decision;

PT_t is the cost pass through factor for year *t* calculated as outlined in the Access Arrangement;

n is the number of different reference tariffs;

m is the different components, elements or variables (“components”) comprised within a reference tariff;

p_t^{ij} is the proposed component j of reference tariff i in year t ;

p_{t-1}^{ij} is the prevailing component j of reference tariff i in year $t - 1$;

q_{t-2}^{ij} is the audited annual quantity of component j of reference tariff i that was sold in year $t - 2$ (expressed in the units in which that component is expressed (e.g., GJ));

A_t is defined below.

Eligible costs are the costs of any relevant certificates / permits / credits (including but not limited to Australian carbon credit units). This would also include costs associated with the acquisition of certificates, such as brokerage fees, transaction fees and the engagement of resources (whether internal or external) to manage compliance and acquire and surrender any certificates. This includes administrative costs but excludes penalties or any costs associated with penalties.

Abolishment True-up Factor

The Abolishment True-up Factor is:

A_t is the Abolishment True-up adjustment to the Distribution price control in Regulatory Year t for the Service Provider as determined below. For the purpose of this formula the Abolishment amount incorporates variance between abolishment volumes used to calculate the abolishment ex ante opex allowance and volumes actually incurred + the effect of any lower per unit abolishment methods approved by Energy Safe Victoria.

Calculation of the Abolishment True-up factor:

The Abolishment True-up Factor A_t , for the Service Provider is:

$$A_t = \frac{(1 + A'_t)}{(1 + A'_{t-1})} - 1$$

$$A'_t = \frac{\Delta af_{t-1}(1 + realWACC_t)(1 + \Delta CPI_t) + \Delta af_{t-2}(1 + realWACC_{t-1})(1 + realWACC_t)(1 + \Delta CPI_{t-1})(1 + \Delta CPI_t)}{(1 + \Delta CPI_t)(1 - X_t)(1 + PT_t)(1 + C_t) \sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}}$$

A'_{t-1} if financial year t is the financial year ending 30 June 2024, the value is zero; and

if financial year t is after the financial year ending 30 June 2024, A'_{t-1} is the value of the A_t determined in financial year $t - 1$.

Δaf_{t-1} is the estimated abolishment cost for regulatory year $t - 1$ less the forecast of abolishment costs incurred by the Service Provider included in the Access Arrangement for the financial year ending June of the financial year $t - 1$

Δaf_{t-2} is the actual abolishment cost for regulatory year $t - 2$ less the estimated abolishment cost for financial year $t - 2$.

10.2 Cost pass through mechanism

10.2.1 Final decision

Our final decision is to:

- Approve cost pass throughs for the following events, including the relevant drafting changes MGN accepted from the draft decision
 - Insurance Coverage Event
 - Insurer Credit Risk Event
 - Natural Disaster Event
 - Regulatory Change Event
 - Service Standard Event
 - Change in Taxes Event
 - Terrorism Event
- Reject MGN’s proposed new pass through for an ‘Unrecovered Abolishment Event’
- Approve an amended pass through for the Retailer Insolvency Event, with different characteristics to that proposed by MGN
- Approve the addition of ‘Fixed Principle E’ to the MGN’s 2023–28 Access Arrangement.

The reasoning behind our final decision is outlined in section 10.2.6.

10.2.2 MGN’s revised proposal

In its revised proposal for the 2023–28 Access Arrangement period, MGN accepted our draft decision in relation to pass through events, including the minor drafting amendments.¹¹ This was for the:

- Insurance Coverage Event
- Insurer Credit Risk Event
- Natural Disaster Event
- Regulatory Change Event
- Service Standard Event
- Retailer Insolvency Event
- Tax Change Event
- Terrorism Event.

It also proposed the addition of a new pass through event, the ‘Unrecovered Abolishment Event’.¹² This new pass through event was proposed alongside MGN’s ‘causer-pays’ approach to cost recovery for small customer abolishment services. This pass through event

¹¹ MGN, *Revised final plan, Access Arrangement 2023–28, Attachment 14.4 – Response on revenue and pricing*, January 2023, p. 6.

¹² MGN, *Revised final plan, Access Arrangement 2023–28, Attachment 14.4 – Response on revenue and pricing*, January 2023, p. 7.

sought to recover (to the extent the charges and costs in aggregate exceed the materiality threshold):¹³

- Any charges which have not been recovered by MGN on account of the Ancillary Reference Service known as Service Abolishment – Residential – or the Non-reference Service known as Service Abolishment – Industrial and Commercial, and which no Gas Retailer has been able to recover from any Shared Customer or which MGN has no reasonable prospect of recovering; or
- Costs which MGN have incurred in cutting and capping any service and removing assets in circumstances where no Service Abolishment – Residential or Service Abolishment – Industrial and Commercial was requested but the service had to be cut and capped or assets removed because that was required by law or for other reasons relating to the safe and prudent operation of the Network.

MGN's revised proposal also sought to modify to its existing pass through for the Retailer Insolvency Event to ensure it was no longer subject to a materiality threshold.¹⁴ MGN proposed this modified cost pass through event alongside proposed changes to its credit support arrangements, which it sought to align with credit support arrangements from other jurisdictions in which the National Energy Customer Framework applies.¹⁵

Additionally, MGN's revised proposal contained a new Fixed Principle, Fixed Principle E. It proposed this to ensure the recovery of a cost pass through amount via reference tariffs adjustments can be spread across Access Arrangement periods, if not able to be recovered entirely within the current Access Arrangement period.¹⁶ MGN proposed this new Fixed Principle apply until the end of the Seventh Access Arrangement period (which ends 30 June 2028).

10.2.3 Stakeholder submissions

We received no stakeholder submissions relating to our draft decision on the pass through events, the proposed Unrecovered Abolishment Event, or the modified Retailer Insolvency Event. However, we received stakeholder submissions in relation to MGN's proposed treatment of small customer abolishment costs, which are discussed in Attachment 9 (Reference tariff setting) of this final decision.

¹³ MGN, *Revised final plan, Access Arrangement 2023–28, Attachment 7.1 – Response on services*, January 2023, pp. 12-13.

¹⁴ MGN, *Revised final plan, Access Arrangement 2023–28, Attachment 14.4 – Response on revenue and pricing*, January 2023, p. 7.

¹⁵ The *National Energy Customer Framework* includes the application of Division 4 of Part 21 of the NGR; MGN, *Revised final plan, Access Arrangement 2023–28, Attachment 14.4 – Response on revenue and pricing*, January 2023, p. 7.

¹⁶ MGN, *Revised final plan, Access Arrangement 2023–28, Attachment 14.4 – Response on revenue and pricing*, January 2023, p. 7; MGN, *Revised final plan, Access Arrangement 2023–28, Tracked version – MGN with credit support*, January 2023, p. 21.

10.2.4 Our assessment approach

We have applied the same assessment approach as set out section 10.2.3 in our draft decision.¹⁷

10.2.5 Interrelationships

We discussed the interrelationships relevant to the pass through events in section 10.2.4 of our draft decision.¹⁸ The same interrelationships apply in the final decision.

10.2.6 Reasons for final decision

10.2.6.1 Existing pass through events

Consistent with our draft decision, we consider that the proposed list of pass through events that are being carried over from the 2018–22 Access Arrangement period to the 2023–28 period (other than the Retailer Insolvency Event – see section 10.2.6.3):

- are not covered by another category of pass through event
- can be clearly identified at the time when we are approving the Access Arrangement
- are of the nature or type that a prudent Service Provider could not reasonably prevent from occurring or substantially mitigate their cost impact
- are prohibitively costly to cover by full insurance or that there is no available insurance cover on reasonable commercial terms.

As a result, we have accepted these proposed pass through events for the 2023–28 Access Arrangement.

10.2.6.2 Unrecovered Abolishment Event

In our final decision, we have approved the ‘socialisation’ approach to the recovery of a proportion of the small customer abolishment service costs (see Attachment 9). Under this approach, the cost to the user for requesting an abolishment service will be set at \$220 and the residual cost incurred by the Victorian distribution businesses undertaking this service will be ‘socialised’ across customers via the haulage reference service tariffs.

As such, we consider the financial incentive (arising from the cost difference between an abolishment service and a disconnection service) for small customers to avoid requesting an abolishment when permanently disconnecting from a gas network, has been greatly reduced. This is likely to result in a higher proportion of MGN’s abolishment services over the 2023–28 Access Arrangement period, being requested by its customers and thus recovered from its customers.

Given the expected impact of this socialisation approach, and the recovery of small customer abolishment costs via the ancillary and haulage reference service tariffs, we consider that it is no longer likely MGN will experience a material impact from unrecovered abolishment

¹⁷ AER, *MGN 2023-28 - Draft Decision, Attachment 10 - Reference tariff variation mechanism*, December 2022, pp. 4-6.

¹⁸ AER, *MGN 2023-28 - Draft Decision, Attachment 10 - Reference tariff variation mechanism*, December 2022, pp. 6-7.

service charges. This consideration informs our decision not to include the Unrecovered Abolishment Event in the 2023–28 Access Arrangement.

10.2.6.3 Retailer Insolvency Event

Our final decision is to include a Retailer Insolvency Event which is subject to a separate assessment process than that applicable to other pass through events included in the 2023–28 Access Arrangement period. Our approach is different than MGN’s proposed approach of amending the existing pass through for the Retailer Insolvency Event to just remove the materiality threshold. This is because we consider the modified Retailer Insolvency Event proposed in MGN’s revised proposal should be subject to equivalent application and assessment processes and requirements as Retailer Insolvency Events which occur in other jurisdictions where part 21 of the NGR applies. We consider this is consistent with the intent of MGN’s proposed change to the Retailer Insolvency Event which was to enable better alignment of its credit support arrangements with other jurisdictions.¹⁹

We consider the Retailer Insolvency Event should be subject to the same application and assessment requirements and procedures as detailed in the rule 520 (under Division 4 of Part 21) of the NGR as this will ensure consistent treatment of this event between jurisdictions. As such, we have amended the proposed drafting of the Retailer Insolvency Event to ensure application and assessment processes and requirements that are more closely aligned with the procedures detailed in rule 520 of the NGR. Consistent with MGN’s proposed approach, the revised pass through event does not include a materiality threshold.

10.2.6.4 Fixed Principle

MGN also proposed a new Fixed Principle to ensure the recovery of a cost pass through amount via reference tariffs adjustments can be spread across Access Arrangement periods, if not able to be recovered entirely within the current Access Arrangement period. We consider this new Fixed Principle to be a formalisation of our standard approach regarding the recovery of a cost pass through amount and equivalent to a Fixed Principle already included in AusNet’s 2018–2022 Access Arrangement.²⁰ We believe it is important to ensure consistency and equality wherever possible between networks and as such have accepted the inclusion of Fixed Principle E in MGN’s 2023–28 Access Arrangement.

10.3 Revisions

We require the following revisions to make the 2023–28 Access Arrangement proposal acceptable as set out in Table 10-2.

Table 10-2 MGN’s reference tariff variation mechanism revisions

Revision	Amendment
Revision 10.1	Insert a paragraph in the Access Arrangement that reads: “The per unit cost used to calculate the abolishment opex allowance is 822.44 (\$2022-23) escalated annually by CPI. This cost relates to abolishment,

¹⁹ MGN, *Revised final plan – Attachment 14.4 – response on revenue and pricing*, January 2023, p. 7.

²⁰ AER, *AusNet Services, Approved Access Arrangement - Part B - Reference tariffs & reference policy - final decision revisions marked - November 2017*, p. 28.

Revision	Amendment
	<p>incorporating digging down to the customer’s connecting T intersection, shutting off gas to the customer’s property, removing the connecting pipe if possible, removing the customer’s meter and making the site safe, consistent with Safety Cases approved by Energy Safe Victoria. Should Energy Safe Victoria approve one or more alternative abolishment methods with lower per unit costs, the distributor must incorporate that lower cost in the A factor true up with the effect of reducing haulage reference tariffs, while accounting for the \$220 (\$2022-23) escalated annually by CPI per unit recovered through the ancillary reference service tariff.”</p>
Revision 10.2	<p>Amend the Access Arrangement tariff control formula as set out in figure 10-1 above.</p>
Revision 10.3	<p>Amend clause 4.5 to read:</p> <p>4.5 Procedures for a Variation in Reference Tariffs</p> <p>In this clause 4.5:</p> <p>‘Billed but Unpaid Charges’ means, in respect of Multinet, distribution service charges that have been billed to a Failed Retailer by Multinet, but that the Failed Retailer has not yet paid (whether before or after the relevant due date for payment).</p> <p>‘Credit Support’ has the meaning set out in clause 11 of this Access Arrangement.</p> <p>‘Failed Retailer’ has the same meaning as in the National Energy Retail Law (notwithstanding whether that law has been applied as a law of Victoria), save that:</p> <ul style="list-style-type: none"> a) The term ‘retailer’ has the meaning given by ‘Gas Retailer’ in clause 11 of this Access Arrangement; and b) The term ‘retailer authorisation’ means a licence to sell gas issued under the GIA. <p>Note: For the avoidance of doubt, the terms “retailer” and “retailer authorisation” where appearing in the definition of “ROLR event” have the meaning above.</p> <p>‘Insurance Coverage Event’</p> <p>An Insurance Coverage Event occurs if:</p> <ul style="list-style-type: none"> a) Multinet: <ul style="list-style-type: none"> i. makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of policies; or ii. would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and b) Multinet incurs costs: <ul style="list-style-type: none"> i. beyond the relevant policy limit for that policy or set of insurance policies; or

Revision	Amendment
	<p>ii. that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and</p> <p>c) The costs referred to in paragraph b) above, materially increase the cost to Multinet of providing the Reference Service.</p> <p>For the purpose of this Insurance Coverage Event:</p> <p>d) 'changed circumstances' means movements in the relevant insurance market, including liability insurance, that are beyond the control of Multinet, where those movements mean that it is no longer possible for Multinet to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph b) above within the scope of that insurance policy or set of insurance policies.</p> <p>e) 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:</p> <p>i. the limit not been exhausted; or</p> <p>ii. those costs not been unrecoverable due to changed circumstances.</p> <p>f) a relevant insurance policy is an insurance policy held during the Access Arrangement Period or a previous Access Arrangement Period in which Multinet was regulated; and</p> <p>g) Multinet will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of Multinet in relation to any aspect of Multinet's network or business; and</p> <p>h) Multinet will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of Multinet in relation to any aspect of Multinet's network or business.</p> <p>Note: In making a determination on an Insurance Coverage Event, the Regulator will have regard to, amongst other things:</p> <p>i. the relevant insurance policy or set of policies for the event;</p> <p>ii. the level of insurance that an efficient and prudent service provider would obtain, or would have sought to obtain, in respect of the event; and</p> <p>iii. any information provided by Multinet to the Regulator about Multinet's actions and processes; and</p> <p>iv. any guidance published by the Regulator on matters the Regulator will likely have regard to in assessing any insurance coverage event that occurs.</p> <p>'Insurer Credit Risk Event'</p> <p>An Insurer's Credit Risk Event occurs if an insurer of Multinet becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Multinet:</p>

Revision	Amendment
	<p>a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer’s policy; or</p> <p>b) incurs additional costs associated with self-funding an insurance claim, which would otherwise have been covered by the insolvent insurer.</p> <p>Note: In assessing an Insurer Credit Risk Event pass through application, the Regulator will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i. Multinet’s attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer’s track record, size, credit rating and reputation; and ii. in the event that a claim would have been covered by the insolvent insurer’s policy, whether Multinet had reasonable opportunity to insure the risk with a different provider. <p>‘Materiality threshold’ is defined as:</p> <p>For the purpose of any defined event, an event is considered to materially increase or decrease costs where that event has an impact of one per cent of the smoothed forecast revenue specified in the Regulator’s final decision on this Access Arrangement, in the year of the Access Arrangement period that the costs are incurred.</p> <p>‘Natural Disaster Event’</p> <p>Natural disaster including but not limited to, cyclone, fire, flood or earthquake that occurs during the Access Arrangement period that changes the cost to Multinet in providing the Reference Service, provided the cyclone, fire, flood or other event was:</p> <ul style="list-style-type: none"> a) a consequence of an act or omission that was necessary for Multinet to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or b) not a consequence of the acts or omissions of Multinet. <p>Note: In assessing a Natural Disaster Event pass through application, the Regulator will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i. whether Multinet has insurance against the event; and ii. the level of insurance that an efficient and prudent service provider would obtain in respect of the event. <p>‘Regulatory Change Event’ means:</p> <p>A change in a regulatory obligation or requirement that:</p> <ul style="list-style-type: none"> a) falls within no other category of Cost Pass Through Event; and b) occurs during the course of an Access Arrangement period; and c) substantially affects the manner in which Multinet provides Reference Services; and d) materially increases or materially decreases the cost of providing those services. <p>‘Retailer Insolvency Costs’ means in respect of Multinet:</p>

Revision	Amendment
	<p>a) Billed but Unpaid Charges;</p> <p>b) the actual amount of unbilled distribution service charges accrued by a Failed Retailer; and</p> <p>c) other costs that Multinet has incurred or is likely to incur as a result of a Retailer Insolvency Event.</p> <p>‘Retailer Insolvency Event’ means:</p> <p>Until such time as the National Energy Retail Law set out in the Schedule to the National Energy Retail Law (South Australia) Act 2011 of South Australia is applied as a law of Victoria, Retailer Insolvency Event has the meaning set out in the National Gas Rules as in force from time to time, except that:</p> <p>a) where used in the definition of 'retailer insolvency event' in the National Gas Rules, the term 'retailer' means the holder of a licence to sell gas under the Gas Industry Act 2001 (Vic); and</p> <p>b) other terms used in the definition of retailer insolvency event in the National Gas Rules as a consequence of amendments made to that definition from time to time, which would otherwise take their meaning by reference to provisions of the National Gas Law, National Gas Rules or National Energy Retail Law not in force in Victoria, take their ordinary meaning and natural meaning, or their technical meaning (as the case may be).</p> <p>Note:</p> <p>c) for the avoidance of doubt, no materiality threshold applies to a Retailer Insolvency Event, such that Multinet is not required to demonstrate a material increase or material decrease in its costs for a Retailer Insolvency Event to occur;</p> <p>d) this Retailer Insolvency Event will cease to apply as a Cost Pass Through Event upon commencement of the National Energy Retail Law and rule 520 of the National Gas Rules in Victoria.</p> <p>‘Service Standard Event’ means:</p> <p>A legislative or administrative act or decision that:</p> <p>a) has the effect of:</p> <ol style="list-style-type: none"> i. substantially varying, during the course of an Access Arrangement period, the manner in which Multinet is required to provide a Reference Service; or ii. imposing, removing or varying, during the course of an Access Arrangement period, minimum service standards applicable to Reference Services; or iii. altering, during the course of an Access Arrangement period, the nature or scope of the Reference Services, provided by Multinet; and <p>b) materially increases or materially decreases the cost to Multinet of providing Reference Services.</p> <p>‘Tax Change Event’ means:</p>

Revision	Amendment
	<p>A tax change event occurs if any of the following occurs during the course of an Access Arrangement period for Multinet:</p> <ul style="list-style-type: none"> a) change in a Relevant Tax, in the application or official interpretation of a Relevant Tax, in the rate of a Relevant Tax, or in the way a Relevant Tax is calculated; b) the removal of a Relevant Tax; c) the imposition of a Relevant Tax; and <p>in consequence, the cost to Multinet of providing Reference Services are increased or decreased.</p> <p>‘Terrorism Event’ means:</p> <p>An act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of, or in connection with, any organisation or government), which:</p> <ul style="list-style-type: none"> a) from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and b) changes the cost to Multinet of providing the Reference Service. <p>Note: In assessing a Terrorism Event, the Regulator will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i. whether Multinet has insurance against the event; ii. the level of insurance that an efficient and prudent service provider would obtain in respect of the event; and iii. whether a declaration has been made by a relevant government authority that an act of terrorism has occurred. <p>4.5.1 Cost Pass Through Event Adjustment</p> <p>Subject to the approval of the Regulator under the National Gas Rules, Reference Tariffs may be varied after one or more Cost Pass Through Event/s occurs.</p> <p>In the case of all Cost Pass Through Events (other than the Retailer Insolvency Event), the Reference Tariffs may only be varied if the Cost Pass Through Event materially increases or materially decreases the cost of providing the Reference Service.</p> <p>In the case of the Retailer Insolvency Event, there is no materiality threshold, such that Reference Tariffs may be varied to pass through the costs and losses associated with the Retailer Insolvency Event (as described in clause 4.5.3 below).</p> <p>In all cases, any such variation will take effect from the next 1 July.</p> <p>In making its decision on whether to approve the proposed Cost Pass Through Event variation, the Regulator must take into account the following:</p> <ul style="list-style-type: none"> a) the costs to be passed through are for the delivery of Network Services;

Revision	Amendment
	<ul style="list-style-type: none"> b) the costs are incremental to costs already allowed for in Reference Tariffs; c) the costs to be passed through meet the relevant National Gas Rules criteria for determining the building block for total revenue in determining reference services; d) the efficiency of Multinet’s decisions and actions in relation to the risk of the Cost Pass Through Event, including whether Multinet has failed to take any action that could reasonably be taken to reduce the magnitude of the costs incurred as a result of the Cost Pass Through Event and whether Multinet has taken or omitted to take any action where such action or omission has increased the magnitude of the costs; and e) any other factors the Regulator considers relevant and consistent with the National Gas Rules and the National Gas Law. <p>Cost Pass Through Events are:</p> <ul style="list-style-type: none"> a) a Regulatory Change Event; b) a Service Standard Event; c) a Tax Change Event; d) a Terrorism Event; e) a Retailer Insolvency Event; f) an Insurer Credit Risk Event; g) an Insurance Coverage Event; and h) a Natural Disaster Event.
Revision 10.4	<p>Relocate the existing clause 4.6.2 to clause 4.5.2 to allow for clause 4.5 to comprehensively detail the Cost Pass Through Event procedure and amend to read:</p> <p>4.5.2 Reference Tariff Variation Procedure for Cost Pass Through Events</p> <p>The process described in this clause 4.5.2 outlines the Reference Tariff variation procedure for Cost Pass Through Events, other than a Retailer Insolvency Event, which is subject to the assessment process described in clause 4.5.3.</p> <p>Multinet will notify the Regulator of Cost Pass Through Events within 90 Business Days of the Cost Pass Through Event occurring (or scheduled to occur), whether the Cost Pass Through Event would lead to an increase or decrease in Reference Tariffs.</p> <p>When the costs of the Cost Pass Through Event incurred are known (or able to be estimated to a reasonable extent), then those costs shall be notified to the Regulator. When making such notification to the Regulator, Multinet will provide the Regulator with a statement, signed by an authorised officer of Multinet, verifying that the cost of the relevant Cost Pass Through Event is net of any payments made by an insurer or third party which partially or wholly offsets the financial impact of that event (including self-insurance).</p> <p>The Regulator must notify Multinet of its decision to approve or reject the proposed variations within 90 Business Days of receiving the notification. This</p>

Revision	Amendment
	<p>period will be extended for the time taken by the Regulator to obtain information from Multinet, obtain expert advice or consult about the notification.</p> <p>The Regulator will endeavour to make its decision on whether Multinet should vary Reference Tariffs due to the occurrence of a Cost Pass Through Event within 90 Business Days of receiving a notification from Multinet. The overall time period for approving a Cost Pass Through Event is 120 business days.</p>
Revision 10.5	<p>Add clause 4.5.3 to read:</p> <p>4.5.3. Retailer Insolvency Event Adjustment and Reference Tariff Variation Procedure</p> <p>The process described in this clause 4.5.3 outlines the Reference Tariff variation procedure for Retailer Insolvency Events.</p> <ol style="list-style-type: none"> 1. If a Retailer Insolvency Event occurs, a distributor Multinet may apply to the Regulator for approval to vary one or more reference tariffs by a retailer insolvency pass through amount in accordance with this clause 4.5.3. 2. To apply for approval to vary a reference tariff under clause 4.5.3(1), Multinet must submit to the Regulator, within 90 business days of the occurrence of a Retailer Insolvency Event, a written statement including: <ol style="list-style-type: none"> a) Multinet's proposed retailer insolvency pass through amount, showing the calculation of that amount taking into account the matters in clause 4.5.3(5); and b) the portion of that amount that Multinet proposes to pass through to end users in each year of the applicable Access Arrangement period/s and how each reference tariff would be varied to achieve that pass through; and c) evidence of: <ol style="list-style-type: none"> i. the actual and likely increase in Retailer Insolvency Costs referred to in clause 4.5.3(5); and ii. the amount to which Multinet is entitled under any relevant credit support; and iii. the maximum amount of credit support (if any) that Multinet was entitled to request the retailer to provide under the terms of credit support outlined in clause 6.5 of this Access Arrangement; and iv. any amount that Multinet is likely to receive on a winding-up of the retailer. 3. The Regulator must notify Multinet of its decision to approve or reject the proposed variations to its Reference Tariffs within 90 Business Days from the later of the date it receives Multinet's statement above, and the date it receives any additional information required by the Regulator. Multinet must provide the Regulator with such additional information as the Regulator reasonably requires for the purpose of making a determination under this clause 4.5.3 within the time reasonably specified by the Regulator in a notice provided to Multinet by the Regulator for that purpose.

Revision	Amendment
	<p>4. If the Regulator is satisfied that the making of a determination in respect of a Retailer Insolvency Event involves issues of such complexity or difficulty that the 90 Business Day time limit should be extended, the Regulator may, by written notice to Multinet, extend the time limit by a further period of up to 60 Business Days. The Regulator must give written notice to Multinet of that extension not later than 10 Business Days before the expiry of the 90 Business Day time limit and such notice must set out the length of the extension and the reason the extension is required.</p> <p>5. Multinet must propose, and the Regulator must determine, a retailer insolvency pass through amount that reflects the increase in the Retailer Insolvency Costs that Multinet has incurred and is likely to incur in providing reference services until the end of the applicable Access Arrangement period solely as a consequence of the Retailer Insolvency Event, but does not include any amount recovered or recoverable from a retailer or a guarantor of a retailer under the terms of credit support outlined in clause 6.5 and Annexure F, clause 27 of this Access Arrangement.</p>
Revision 10.6	<p>Amend clause 4.6 to read:</p> <p>4.6 Procedure for Routine Variations in Reference Tariffs</p> <p>Multinet will notify the Regulator in respect of any Reference Tariff variations, at least 60 business days before the date of implementation and include:</p> <ol style="list-style-type: none"> a) the proposed variations to the Reference Tariffs; and b) an explanation and details of how the proposed variations have been calculated. <p>If Multinet proposes variations to the Reference Tariffs (other than as a result of a Cost Pass Through Event) and those variations have not been approved by the next 1 July, then the Reference Tariffs will be varied as proposed by Multinet until such time as variations to Reference Tariffs are approved by the Regulator.</p> <p>If it appears that any past tariff variation contains a material error or deficiency because of a clerical mistake, accidental slip or omission, miscalculation or misdescription, the Regulator may change subsequent tariffs to account for these past issues.</p> <p>Within 30 Business Days of receiving Multinet’s variation notice, the Regulator will inform Multinet in writing of whether or not it has verified the proposed Haulage Reference Tariff and/or Haulage Reference Tariff Components in the Multinet’s variation notice as compliant with the Annual Tariff Variation Mechanism.</p> <p>The 30 Business Day period may be extended for the time taken by the Regulator to obtain information from Multinet, obtain expert advice or consult about the notification. However, the Regulator must assess a variation application within 90 Business Days, including any extension of the decision-making time.</p>

Glossary

Term	Definition
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AER	Australian Energy Regulator
AGN	Australian Gas Networks (Albury and Victoria)
AusNet	AusNet Gas Services
CO2-e	carbon dioxide equivalent
CPI	Consumer Price Index
NGR	National Gas Rules
MGN	Multinet Gas Networks
opex	operating expenditure
PTRM	Post Tax Revenue Model
WACC	Weighted Average Cost of Capital
