



**Australian
Gas Networks**

Attachment 10.2

Capital Base

Response to AER Draft Decision

January 2023

1 Capital Base

We accept the Draft Decision on capital base and will update most recent estimates of capital expenditure for calendar year 2022 and the first half of 2023.

1.1 Overview

This attachment sets out our response to the AER's Draft Decision on our capital base for our Victorian and Albury gas distribution networks over the next (2023/24 to 2027/28) Access Arrangement (AA) period.

The AER has broadly accepted our approach to adjusting our capital base for capital expenditure (capex), disposals, depreciation and inflation presented in the Final Plan. The AER has made minor amendments in its Draft Decision in respect of the capital base, which amendments we have accepted as part of this Revised Final Plan. In its Draft Decision, the AER has also requested we update the capital base for actual 2022 capex and an updated forecast of first half 2023 capex, which we have done.

These amendments result in an opening capital base as at 1 July 2023 of \$2,019 million (\$nominal) and a closing capital base as at 30 June 2028 of \$2,188 million (\$nominal).

1.2 Customer and Stakeholder Feedback

In preparation of this revised Final Plan we have continued to engage stakeholders and factor in their feedback. Stakeholders generally consider the adjustment of the capital base to be largely mechanical, governed by the requirements of the National Gas Rules (NGR).

1.3 AER Draft Decision

Table 1.1: Summary of AER Draft Decision

Issue	AER Response	AER Comment
Opening capital base 1 July 2023	Modify	The AER amended our opening capital base, following minor corrections identified and agreed with AGN during the review of our Final Plan. The AER directed us to update for calendar year 2022 actual capital expenditure and provide an updated forecast of the capital expenditure forecast for the first half of 2023.
Forecast capex	Accept	The AER accepted our total capex forecast as it was not materially different to its own alternative forecast. More information is provided in Attachment 9.16.
Depreciation	Accept	The AER accepted the amount of regulatory depreciation in the Final Plan including the level of Future of Gas depreciation proposed in the Final Plan.

Issue	AER Response	AER Comment
Inflation	Modify	The AER applied the current methodology for estimating expected inflation. The inflation estimate in our 2 September Final Plan submission was 3.05% and the inflation estimate applied in the AER’s Draft Decision 3.37%. We note that the estimate of inflation for the next AA period will be updated for the purposes of the AER’s Final Decision expected in May 2023.
Closing capital base 30 June 2028	Modify	The AER made minor modifications to our closing capital base, reflecting the above changes.

Note: In this ‘traffic light’ table, green shading represents the acceptance, orange represents a modification/modifications and red shading represents a rejection.

1.4 Our Revised Final Plan

AGN has largely accepted the AER’s Draft Decision (see Table 1.2). The differences in capital base the revised Final Plan and the AER’s Draft Decision reflect the required updates to the estimates for calendar year 2022 and first half 2023 capital expenditure.

Table 1.2: Summary of Our response to the AER Draft Decision

	AER Draft Decision	AGN Response	AGN Comment
Opening capital base 1 July 2023	Modify	Modify	We have accepted these changes during the AER’s review of our 2 September 2022 Final Plan, however we have updated for the most recent estimates of calendar year 2022 and first half 2023 capex.
Forecast capex	Accept	Accept	We have accepted the AER’s Draft Decision on capex.
Depreciation	Accept	Modify	We have updated our revised Final Plan to reflect the changes to capex for calendar year 2022 and first half 2023 advised above. Although we have also responded to aspects of the AER’s Draft Decision in relation to Future of Gas depreciation (see attachment 6.6). We note this does not alter the depreciation applied in this revised Final plan.
Inflation	Accept	Accept	We have applied the AER’s Draft Decision estimate of inflation for the next AA period but note this estimate will be updated for the purposes of the AER’s Final Decision.

	AER Draft Decision	AGN Response	AGN Comment
Closing capital base 30 June 2028	Modify	Modify	The closing capital base reflects the changes that have been described above.

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification/modifications and red shading represents a rejection.

1.5 Summary

We have established the capital base as at 1 July 2023 consistent with the requirements of the NGR¹, having accepted the amendments made by the AER in its Draft Decision as well as updating for more recent information including more recent estimates of calendar year 2022 and first half 2023 capital expenditure.

Table 1.4 below shows the roll forward of the capital base from 1 January 2018 to 30 June 2023.

Table 1.4: Roll Forward of the Regulatory Asset Base 1 January 2018 to 30 June 2023 (\$nominal, million)

	2018	2019	2020	2021	2022	1H 2023
Opening Capital Base	1,572.0	1,612.1	1,668.2	1,729.1	1,778.4	1,897.3
<i>Less Depreciation</i>	-77.9	-85.4	-95.6	-86.9	-94.3	-30.5
<i>Plus Conforming Net Capex</i>	87.7	108.1	129.9	142.2	144.8	71.3
<i>Plus Actual Inflation</i>	30.4	33.5	26.6	-6.0	68.4	39.9
<i>Plus 2017 Capex Adjustments</i>						-19.6
<i>Plus Funding Adjustment</i>						-5.4
Closing Value	1,612.1	1,668.2	1,729.1	1,778.4	1,897.3	1,953.1

¹ NGR, r. 77 (2)

The forecast capital base over the next AA period is determined in accordance with the NGR², taking into account forecast depreciation, capex and inflation, is set out in Table 1.5. This shows a closing capital base of \$2,188.3 million as at 31 December 2028 (\$nominal).

Table 1.5: Forecast Regulatory Asset Base 1 July 2023 to 30 June 2028 (\$nominal, million)

	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Capital Base	1,953.1	2,030.3	2,092.1	2,133.3	2,160.6
<i>Plus</i> Forecast Conforming Net Capex	112.9	103.2	89.4	83.3	92.5
<i>Less</i> Forecast Depreciation	-101.6	-109.9	-118.7	-128.0	-137.6
<i>Plus</i> Forecast Inflation	65.9	68.5	70.6	72.0	72.9
Closing Value	2,030.3	2,092.1	2,133.3	2,160.6	2,188.3

² NGR, r. 78