

In addition to the matters raised in our submissions provided yesterday, we also have some concerns with the proposed new Rule 87 in the National Gas Rules.

It is proposed that the existing Rule 87 be deleted and replaced with a new formula for determining the return on the projected capital base as follows:

$$RPCB_t = r_t \times v_t$$

Where v_t is defined as

“ v_t is the value, as at the beginning of the regulatory year, of the capital base for the service provider for the access arrangement, calculated taking into account (in the same manner as for a calculation of the projected capital base under rule 78)

- (a) the opening capital base for the access arrangement period; and*
- (b) conforming capital expenditure, depreciation, and the value of pipeline assets disposed of, in the preceding regulatory years of the access arrangement period; and*
- (c) any mechanism included in the access arrangement under rule 82(3) to prevent the service provider from benefiting, through increased revenue, from a user’s contribution to the capital base.”*

It is unclear what is intended by this change or why it is needed. It may be intended to clarify the projected capital base that the rate of return is applied to, but the drafting, in particular in sub-paragraph (b) of the definition of v_t , is very unclear.

Specifically our concerns are:

- The language of sub-paragraph (b) of the definition of v_t - *“conforming capital expenditure, depreciation and the value of pipeline assets disposed of, in the preceding regulatory years of the access arrangement period”* is inconsistent with the terms used in Rule 78 (which refers to *forecast* conforming capital expenditure, *forecast* depreciation etc). The calculation of v_t is to be undertaken in the same manner as under Rule 78, but we don’t understand how this is to occur given the inconsistent terminology used.
- Conforming capital expenditure is addressed in Rule 79 and identifies the capital expenditure to be added to the asset base when it is rolled forward from one regulatory period to the next. The use of the words *“in the preceding regulatory years of the access arrangement period”* in sub-paragraph (b) (suggests it may be contemplated that the capital base is to be updated for conforming capital expenditure (rather than forecast), actual depreciation, disposals etc *within* the regulatory period. This is not consistent with the current approach where these adjustments are made when rolling forward the asset base from one regulatory period to the next. We assume this is not the intention, but the drafting is unclear and difficult to interpret.

It appears to us that the necessary changes to Rule 87 could be made in a very simple way, along the following lines:

“87 Rate of return

Subject to rule 82 (3), the return on the projected capital base for each regulatory year of the access arrangement period is to be calculated by applying **the allowed rate of return for that regulatory year to the projected capital base determined in accordance with Rule 78.**

[Remainder of Rule 87 deleted]

We would of course be happy to discuss further if that is of assistance.

Cheers

Garth

Garth Crawford
General Manager, Economic Regulation
Energy Networks Australia