



## Setting the opening capital base – draft rule determination

### Consultation on draft rule determination

**The AEMC invites submissions to its draft rule determination in relation to the Setting the Opening Capital Base rule change request.**

#### The Commission's draft rule determination

The Commission has made a draft rule to amend how the economic regulator calculates the value of a regulated gas pipeline. Prior to the start of a new access arrangement period, the value of the opening capital base for the regulated pipeline must be set.

The amending draft rule requires this calculation also to include the removal of any benefit or penalty arising out of the difference between estimated and actual capital expenditure in the final year of a prior access arrangement period.

The draft rule is made in response to the Australian Energy Regulator's (AER) rule change request concerning the methodology used to set the opening capital base in respect of regulated gas pipelines. The draft rule, if implemented, would apply to all pipelines regulated by the AER and, in Western Australia, the Economic Regulation Authority.

The draft rule reflects the AER's proposed rule.

#### Reasons for the draft rule determination

The draft rule will contribute to the achievement of the national gas objective (NGO) by preserving the regulatory incentive framework that rewards service providers when they spend less capital expenditure than forecast.

Under the draft rule, reference tariffs are more likely to reflect efficient utilisation of, and investment in, pipeline services because they would be less likely to be influenced by gains or losses unrelated to the efficiency of the service provider.

Conversely, maintaining the current provisions could encourage an unintended incentive on service providers to pursue revenue maximisation rather than efficient capital expenditure. This would not be in the long term interests of consumers.

The Commission has also considered the importance of regulatory certainty and transparency in the methodologies used by the economic regulators to contributing to a stable investment environment and the promotion of the NGO. The ability of the AER to make the relevant adjustment has been the subject of two recent Australian Competition Tribunal cases between the AER and certain service providers.

#### Consultation process

Submissions to the draft rule determination are due by **21 August 2014**.

For more information, contact:

AEMC Director, **Meredith Mayes** (02) 8296 7800

AEMC Adviser, **Matt Lady** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

Date: 10 July 2014