

Revised Final Plan
Attachment 10.1

Response to Capital Base

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PUBLIC

1 Response to Draft Decision on Capital Base

Our capital base represents the amount of invested capital which is yet to be returned to investors. Our investors earn a return on the capital base from the return on capital (see Attachment 11.1) and a return of the capital base via depreciation (see Attachment 6.4).

1.1 Overview

The capital base represents an aspect of our regulatory proposal which is treated differently by ourselves and by the ERA. In our Final Plan, the capital base is addressed in Chapter 10, and capex is addressed in Chapter 9. The ERA combines both of these together in Attachment 4, and covers (as we do in Chapter 9 of the Final Plan) capex in both AA5 and AA6.

We note that Chapter 10 of our Final Plan is an “output” chapter. That is, no new arguments are advanced in Chapter 10, but it collects together the consequences of our discussions on capex and depreciation in chapters 9 and 6 (respectively) and shows the consequences of these for the regulatory asset base.¹ The same is true of this attachment, which summarises the outcomes, in terms of the resultant regulatory asset base, of our proposals for capex (Attachment 9.11) and depreciation (Attachment 6.4); as well as inflation (Attachment 11.1) where we show regulatory depreciation (see Table 1.7). For this reason, this attachment is short, and serves as a summary of the consequences of a number of other chapters on the regulatory asset base.

We note that the ERA makes no specific amendments which pertain to our regulatory asset base in Attachment 4 of the Draft Decision (or anywhere else). The two amendments it publishes in Attachment 4 deal with AA5 and AA6 capex, and we address our response to these two amendments in Attachment 9.11. In this Attachment we show:

- The ERA’s closing capital base for AA5 (see Draft Decision Table 4.13) and our proposed changes to this due to differences between our and the ERA’s view of conforming capex during AA5 (covered in Attachment 9.11). This corresponds to Table 10.1 in our Final Plan.
- Our proposed conforming capex for AA6 (in total) from Table 10.2 of our Final Plan, along with the ERA’s conforming capex (in total) from Table 4.31 of the Draft Decision, and our revised proposal for conforming capex detailed in Attachment 9.11.
- Our proposed depreciation (in total) from Table 10.4 of our Final Plan along with the ERA’s depreciation (in total) from Table 6.8 and our revised proposal for depreciation detailed in Attachment 6.4.

¹ We note that we deal with inflation in Chapter 10, but there is no discussion of approach, as we must and do follow the ERA’s Rate of Return Instrument. Inflation is only used, in Chapter 10 of our Final Plan, to determine regulatory from straight line depreciation, and we note that the ERA, in Attachment 6 of its Draft Decision, covers only straight-line depreciation. We cover inflation, along with other issues covered in the ERA’s Rate of Return Instrument, in Attachment 11.1. We note that we also show the asset lives we use in Chapter 10 and that these, in conjunction with the future of gas (Chapter 6 of our Final Plan) and asset recategorisation approach (summarised in our AA5 proposal and not repeated in our Final Plan for AA6) to determine the straight line depreciation in Chapter 10. Asset lives and our response to the ERA’s approach to accounting for AA5 asset recategorisation (which has changed a little from our Final Plan) are covered in Attachment 6.4.

- The ERA's closing capital base for AA6 (see Draft Decision Table 4.32) and our proposed changes to this due to changes in conforming capex during AA6 (covered in Attachment 9.11). This corresponds to Table 10.7 in our Final Plan.

We note that Table 10.3 from our Final Plan shows asset lives, and our response to this (which is essentially to agree with the ERA, who essentially agree with our Final Plan) is shown in Table 1.3 of Attachment 6.4 and is not replicated here.

1.2 ERA Draft Decision

Here we summarise the parts of the ERA's Draft Decision which directly pertain to the Capital Base, being Table 4.13 for AA5 (corresponding to Table 10.1 in our Final plan) and Table 4.32 (corresponding to Table 10.7 in our Final Plan). Since the ERA's differences here are driven by different views elsewhere (namely in capex) we label their differences as "modify" rather than "reject"; if we agreed on capex, essentially, we would agree on closing asset values.

Table 1-1: Summary of ERA's Draft Decision on the Future of Gas and Depreciation

	ERA Draft Decision	ERA Comment
AA5 closing capital base (Draft Decision Table 4.13)	Modify	Due to issues with DBP's conforming capex during AA5 (detailed in [20] to [126] in the Draft Decision), the ERA has rejected DBP's closing capital base for AA5
AA6 closing capital base (Draft Decision Table 4.32)	Modify	Due to issues with DBP's conforming capex during AA6 (detailed in [133] to [408] in the Draft Decision), the ERA has rejected DBP's closing capital base for AA6

Note: In this 'traffic light' table, green shading represents the ERA's acceptance of our Final Plan, orange represents the ERA's modification of our Final Plan and red shading represents the ERA's rejection of our Final Plan.

1.3 Our Response to the Draft Decision

Our response to the ERA's conclusions in respect of closing asset bases for AA5 and AA6 are shown in Table 1-2. As was the case for depreciation (see Attachment 6.4), the core of the issue is differences in our views of capex. Since our differences are driven by capex, we label our responses "modify" rather than "reject".

Table 1-2: Summary of our response to the ERA's Draft Decision on the capital base

	ERA Draft Decision	Our Response	Our Comment
AA5 closing capital base (Draft Decision Table 4.13)	Modify	Modify	Our decision to reject the ERA's closing asset base for AA5 is driven by our decision to reject certain conclusions of the ERA in respect of conforming capex (see Attachment 9.11), which flow through directly to the capital base and indirectly through their influence on depreciation. ²
AA6 closing capital base (Draft Decision Table 4.32)	Modify	Modify	Our decision to reject the ERA's closing asset base for AA6 is driven by our decision to reject certain conclusions of the ERA in respect of conforming capex (see Attachment 9.11), which flow through directly to the capital base and indirectly through their influence on depreciation.

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

The results of our modifications to the ERA's Draft Decision are shown in the tables below.

Table 1-3: Closing capital base for AA5 (\$ mil December 2024)

	2021	2022	2023	2024	2025
<i>ERA Draft Decision (Table 4.13)</i>					
Capital base as at 1 January	3,994.4	3,817.8	3,724.1	3,630.5	3,529.8
PLUS: conforming capital expenditure	35.9	41.3	43.8	36.9	35.1
PLUS: Equity raising costs	2.4	1.8	1.6	1.8	1.7
LESS: Disposals and redundant assets	0	0	0	0	0
LESS: Depreciation	214.9	136.8	139.0	139.3	140.9
Capital Base at 31 December	3,817.8	3,724.1	3,630.5	3,529.9	3,425.8
<i>Response</i>					
Capital base as at 1 January	3,994.4	3,824.5	3,732.6	3,647.2	3,547.4
PLUS: conforming capital expenditure	42.6	43.1	52.0	37.7	36.3
PLUS: Equity raising costs	2.4	1.8	1.6	1.8	1.6
LESS: Disposals and redundant assets	0	0	0	0	0
LESS: Depreciation	214.9	136.8	139.0	139.3	140.9
Capital Base at 31 December	3824.5	3732.6	3647.2	3547.4	3444.5

² The closing RAB each year is the opening RAB plus conforming capex, less depreciation. So if there is a difference in conforming capex in one year, it will inform the closing RAB for that year but will also affect depreciation in future years (more capex today means more depreciation next year). Hence the direct and indirect effects. As noted in Attachment 6.4, we have no issues with the ERA's Draft Decision in respect of the methodological approach to depreciation; just to the numbers, due to differences in opinion in respect of conforming capex. Here too, capex sits at the core of the issue.

Table 1-4: Total conforming capital expenditure AA6 (\$ million as at 31 December 2024)

	Final Plan (Table 10.2)*	Draft Decision (Table 4.31)	Revised Final Plan
Pipeline	1.0	0.9	1.0
Compression	33.3	23.9	27.7
Metering	31.8	18.7	21.0
Other depreciable	6.5	6.5	6.4
Computers and motor vehicles	59.0	44.1	54.1
Cathodic/Corrosion protection	23.6	20.5	22.8
SCADA, ECI and comms	81.2	78.5	78.5
Building	51.8	26.8	50.3
Total Capex	288.0	219.9	262.0

* Note that we do not provide a total by asset class in Table 10.2 of our Final Plan, and this summary comes from Table 4.30 of the ERA's Draft Decision, which does provide such a total. Some small differences may exist between Table 10.2 and the Draft Decision due to differences in rounding.

Table 1-5: Total depreciation AA6 (\$ million as at 31 December 2024)

	Final Plan (Table 10.4)*	Draft Decision (Table 6.8)	Revised Final Plan
Pipeline	424.6	424.0	423.88
Compression	126.8	125.9	126.17
Metering	14.4	12.7	13.23
Other depreciable	14.2	13.7	13.73
Computers and motor vehicles	67.2	42.6	63.28
Cathodic/Corrosion protection	23.4	22.8	23.16
SCADA, ECI and comms	62.5	62.6	62.69
Building	3.5	2.1	3.38
Cost of raising equity	1.6	1.6	1.7
BEP Lease	2.7	2.5	2.7
Out of service assets in AA5 (deferred depreciation)	81.2	81.0	81.0
Total depreciation	822.2	791.5	814.9

* Note that we do not provide a total by asset class in Table 10.4 of our Final Plan, nor separate out the out of service assets from AA5, and this summary comes from Table 6.1 and 6.2 of the ERA's Draft Decision, which does provide such a total. Some small differences may exist between Table 10.4 and the Draft Decision due to differences in rounding.

Table 1-6: Closing capital base for AA6 (\$ mil December 2024)

	2026	2027	2028	2029	2030
<i>ERA Draft Decision (Table 4.32)</i>					
Capital base as at 1 January	3425.8	3322.9	3217.2	3102.9	2989.6
PLUS: conforming capital expenditure	47.3	51.7	44.0	45.1	31.6
PLUS: Equity raising costs	1.4	1.5	1.4	1.3	1.1
LESS: Disposals and redundant assets	0	0	0	0	0
LESS: Depreciation	151.6	158.9	159.8	159.7	161.8
Capital Base at 31 December	3,322.9	3,217.2	3,102.9	2,989.6	2,860.5
<i>Response</i>					
Capital base as at 1 January	3,444.5	3,337.9	3,243.0	3,139.0	3,027.5
PLUS: conforming capital expenditure	53.2	66.8	58.4	49.1	34.4
PLUS: Equity raising costs	1.5	1.6	1.6	1.3	1.1
LESS: Disposals and redundant assets	0	0	0	0	0
LESS: Depreciation	161.3	163.2	164.0	161.9	164.5
Capital Base at 31 December	3,337.9	3,243.9	3,139.0	3,027.5	2,898.6