



INFORMATION

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Setting the opening capital base – final rule determination

Publication of final rule determination and final rule

On 2 October 2014 the AEMC published a rule in relation to the Setting the Opening Capital Base rule change request, effective from this date.

Final rule determination

The Commission has made a final 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 final rule requires this calculation also 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 final 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 final rule applies to all pipelines regulated by the AER and, in Western Australia, the Economic Regulation Authority.

Reasons for the final rule determination

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

Under the final 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.

Commencement date

The final rule commences operation effective 2 October 2014.

For more information, contact:

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