Annexure 1 to nbn letter to ACCC – June 2023
Changes to November SAU Variation: grant funding of capital expenditures

Context to this document:

From time to time, **nbn** may receive grants from third parties to fund capital expenditure projects.

For example, in June 2022, **nbn** received a grant from the Commonwealth Government to part-fund upgrades to **nbn**'s Fixed Wireless network (the **2022 FW Grant**). That grant was made as part of the Government's 'Better Connectivity for Rural and Regional Australia Plan' – see the Government's media release here and **nbn**'s 2022 Annual Report here (p179).

The ACCC's draft decision of 2 May 2023 (**Draft Decision**) states that the ACCC encourages **nbn**, for any revised SAU variation, to consider its approach to the treatment of third-party funding and government grants in that variation. In particular, the Draft Decision encourages **nbn** to include a provision in Schedule 2G of the SAU to recognise third-party funding (including Telstra's remediation credit) and government grants.

nbn agrees that its intended treatment of third party grants to fund capital expenditure could be better reflected in the text of its SAU Variation, and proposes to make changes to do so. This document sets out those proposed changes (shown in track / mark-up against extracts of the November SAU Variation), with explanatory notes. The changes go to the general treatment of any such grants received going forward and a specific treatment of the 2022 FW Grant received previously. The changes amend the established approach under the current SAU (as in place from 2013) for treating such grants.

nbn considers that the November SAU Variation already provides an effective and appropriate manner for accounting for the Telstra 'remediation credit', and explains that further below.

Further context and notes on the proposed changes:

The current SAU (as accepted in 2013) contains rules for determining **nbn**'s Annual Building Block Revenue Allowance (**ABBRR**) and rolling forward the Regulatory Asset Base (**RAB**) and Initial Cost Recovery Account (**ICRA**), both in:

- the 'Initial Regulatory Period', which ends on 30 June 2023 (governed by 'Module 1' of the SAU); and
- the 'Subsequent Regulatory Period', from 1 July 2023 to 30 June 2040 (governed by 'Module 2' of the SAU).

Relevantly, under the current SAU (for both the Initial Regulatory Period and the Subsequent Regulatory Period):

- 'Capital Expenditure' is defined to mean capital expenditure incurred by **nbn** – such that assets which are constructed and then gifted to **nbn** are not included in **nbn**'s RAB (or are included at a $0 value); and

- grant funding for capital expenditure received from third parties is treated as 'Revenue' and flows through to the calculation of the ICRA – and the capital expenditure incurred by **nbn** using that funding may be included in the RAB.

These provisions operate together to ensure that **nbn** is not under or over-compensated by the economic regulation framework set out in the SAU, as was noted by the ACCC in October 2013 (see pp. 71-72 of the ACCC's explanatory statement here and a related **nbn** submission here).

In the context of the broader changes proposed in the November SAU Variation (including the changes to the ICRA arrangements), **nbn**'s building block model adopts a different treatment of grant funding for capital expenditures which is received from July 2023 onwards. In particular, in the building block model, grant funding received from July 2023 onwards is netted off the RAB as part of the RAB roll-forward process. This reflects that:

- under the November SAU Variation, **nbn** proposes that the ICRA will no longer be rolled forward to account for further regulatory losses incurred from July 2023 onwards (noting that, under the current SAU, such grant funding is accounted for as 'Revenue' and flows through to the ICRA calculation);
- grant funding for capital expenditure should instead be accounted for elsewhere in the economic regulation framework set out in the SAU, to ensure that **nbn** is not under or over-compensated on account of such funding; and
- longer term, once **nbn**'s revenues are sufficient to cover its building block costs, if **nbn** were to receive any further large one-off grants to fund capital expenditure, similar to the $480 million 2022 FW Grant, then it would be better for price stability and predictability for such grants to be netted off the RAB rather than revenue. The intended effect would be to offset the impact of the grant on prices over the average life of the capital expenditure being funded, rather than to offset the impact of the grant on prices only over the Regulatory Cycle in which the grant is received.

The changes set out below are intended to make that treatment of grant funding for capital expenditure (as included in the building block model) clear in the SAU provisions relating to the roll-forward of the RAB from July 2023 onwards – that is, in:

- the revised Module 2 provisions set out in the November SAU Variation (which relate to the Subsequent Regulatory Period, now defined to be from 1 July 2023 to 30 June 2032); and
- the new Module 3 provisions set out in the November SAU Variation (which relate to the 'Post-2032 Regulatory Period', from 1 July 2032 to 30 June 2040).

In that context, the key changes set out below are to include new operative provisions to make clear that Relevant Grant Funding will be netted from the RAB as part of rolling forward the RAB from July 2023 onwards (and as part of forecasting the RAB over an upcoming Regulatory Cycle), where the term 'Relevant Grant Funding' is defined to mean monies paid to **nbn** as grants to fund capital expenditure (including the 2022 FW Grant), and for clarity, is expressed to exclude:

A. amounts earned by **nbn** through charging third parties for the construction of infrastructure (such as through **nbn**'s Technology Choice Program or through particular agreements with governments to upgrade parts of **nbn**'s network which are equivalent to **nbn**'s Technology Choice Program), noting that these are already included in the category of Non-WAPC Core Service Charges and that forecast revenue from this category will be offset against the Core Services ABBRR in the calculation of the WAPC Revenue Requirement. This arrangement:

- ensures that longer term, once **nbn**'s revenues are sufficient to cover its building block costs, **nbn** is not under or over-compensated by the economic regulation framework in the SAU;
- is somewhat simpler to administer than offsets to the RAB; and
- is consistent with price stability and predictability because the amounts concerned are expected to be relatively low compared to **nbn**'s annual revenue.

In the meantime, when **nbn**'s revenues are below its building block costs (in essence, before the WAPC Factor Change Year), **nbn** is systematically under-compensated by the economic regulatory framework in the revised SAU (and after that point, the framework only provides **nbn** with an opportunity to recover a minority of its historically unrecovered costs – through the new ICRA recovery provisions and the proposed reduction of the ICRA, which is based on specific inputs and assumptions regarding the operation of the broader SAU framework); and

B. amounts received by **nbn** under the Regional Broadband Scheme (RBS), noting that this funding is recurrent in nature, in the nature of an operating subsidy, and the SAU variation already provides for it to be offset against the Core Services ABBBR in the calculation of the WAPC Revenue Requirement.

The changes below also amend the definition of 'Revenue' as it applies in Modules 2 and 3 of the SAU, so that it expressly excludes Relevant Grant Funding (to give effect to the position above where such funding will no longer be treated as 'Revenue', and noting the limited relevance of the term 'Revenue' in Modules 2 and 3 of the November SAU Variation).

Treatment of the 2022 FW Grant

In addition, the changes set out below provide for a specific transitional treatment of the 2022 FW Grant, that is adjusted from that included in the FY24 to FY40 building block model lodged by **nbn** in support of the November SAU Variation but is essentially neutral over the term of the SAU in terms of its anticipated impact on **nbn**'s regulated revenue. That building block model:

- reflected that the 2022 FW Grant was received in June 2022 (in the 'Initial Regulatory Period' under the current SAU) and would ordinarily be treated as 'Revenue' under the Module 1 provisions of the current SAU, in turn flowing through to the ICRA calculation;
- recognised only part of this grant as 'Revenue' earned in the Initial Regulatory Period and instead recognised the remainder of this grant as being netted from the RAB over FY24 to FY27 – this was based on how **nbn** expected to recognise the grant for accounting purposes (i.e., over five years), and translated to a lower RAB at the end of FY27 than if the entirety of the grant had been accounted for via the ICRA at the end of FY22; and
- was a key input and assumption into **nbn**'s calculation of its proposed reduction of the ICRA from approximately $44 billion (as estimated at the end of FY23) to $12.5 billion.

Based on further engagement with the ACCC, the transitional treatment set out in this document instead recognises the entirety of the 2022 FW Grant as being netted from the RAB in FY24 (and without being spread over the period to FY27). This will be reflected in:

- the updated FY24 to FY40 building block model to be lodged by **nbn** in support of the SAU Variation when it is relodged in due course; and
- the associated forecast ABBRR and RAB values included in Module 4 of that SAU Variation.

<u>Other items are addressed in the SAU framework:</u>

As noted above, the ACCC's Draft Decision states that:

> *If NBN Co were to submit a revised SAU variation, we would encourage it to include in Schedule 2G a provision to recognise third-party funding (including Telstra's remediation credits) and government grants. This could ensure NBN Co does not over recover costs associated with delivering core services within the SAU.*

This follows a comment in Telstra's submission of February 2023, which states that:

> *It is not clear how the BBM treats the infrastructure remediation credit from Telstra. It is a substantial amount. It should be recognised in the BBM as payment to NBN Co each year of each regulatory cycle, even though the time of the payment will be in the future and largely at the discretion of NBN Co.*

In response, **nbn** notes that the November SAU Variation (and the current SAU, as in place from 2013) already allows for an effective and appropriate treatment of the Telstra infrastructure remediation credit. In particular, consistent with past practice in dealing with duct remediation credits payable pursuant to the Definitive Agreements, any future infrastructure remediation credit would be an offset against **nbn**'s forecast operating expenditure – more specifically, offset against the 'Infrastructure Payments' component of **nbn**'s operating expenditure for SAU purposes. **nbn** factored the future infrastructure remediation credit into its calculation of its proposed reduction of the ICRA from approximately $44 billion (as estimated at the end of FY23) to $12.5 billion.

Further, for completeness, **nbn** notes that each of the other items referred to by the ACCC are also addressed already within the framework of the November SAU Variation (when combined with the changes proposed below). In particular, in respect of:

- grant funding for capital expenditure – this is captured in the proposed treatment and changes set out further below;
- grant funding for operating expenditure – this would be addressed as part of assessing the prudent and efficient level of operating expenditure for each Regulatory Cycle; and
- amounts earned by **nbn** through charging third parties for the construction of infrastructure (such as through **nbn**'s Technology Choice Program or through particular agreements with governments to upgrade parts of **nbn**'s network which are equivalent to **nbn**'s Technology Choice Program) – these are captured in the treatment of Non-WAPC Core Service Charges, as discussed above.

Changes:

Commented [A1]: Note to the ACCC: this rider shows changes in track against extracts of **nbn**'s SAU Variation lodged in November 2022.

Attachment C Dictionary

1 Definitions

[…]

2022 FW Grant means the $480 million (excluding GST) received by NBN Co from the Commonwealth Government in June 2022 as part of the Commonwealth Government's "Better Connectivity for Rural and Regional Australia Plan".

Commented [A2]: Note to the ACCC: as noted above, in the context of the broader changes proposed in the November SAU Variation (including the changes to the ICRA arrangements), **nbn** proposes that grant funding for capex received after the 'Initial Regulatory Period' (ie, from July 2023) will be netted from capex as part of the RAB roll-forward (noting that such funding was previously treated under the SAU as 'Revenue' and flowed into the ICRA calculation).

nbn also proposes to adopt a specific transitional treatment of the 2022 FW Grant, which was received during the Initial Regulatory Period but will be netted from capex for FY24. This definition of '2022 FW Grant' facilitates that position, in combination with the new clause 2G.5.11 below.

[…]

Capital Expenditure means capital expenditure incurred by NBN Co or any Related Body Corporate of NBN Co in connection with the Relevant Assets, but excluding GST.

[…]

Non-WAPC Core Service Charges means:

(a) Other Charges consisting of an hourly labour rate (or such other labour-based charge) and/or cost of materials;

(b) charges in relation to any construction, configuration, extension and upgrade activities that are ancillary or incidental to the supply of an NBN Access Service or other product or service supplied by NBN Co;

(c) charges in relation to deployment of network infrastructure at a new development;

(d) charges in relation to a product or service supplied by NBN Co under Part 3 or Part 5 of Schedule 1 to the Telecommunications Act 1997 (Cth) or the Facilities Access Code;

(e) charges in relation to services that support the continuity of services previously supplied by a customer over a network previously owned by that customer, where ownership of that network has been transferred to NBN Co; and

(g) charges in relation to a Core Regulated Service that the ACCC has approved in writing to be excluded from the application of the WAPC formula in clause 2D.2.2, provided that such approval has not been withdrawn by the ACCC in writing.

[…]

Relevant Grant Funding means any monies paid as grants to NBN Co (or any Related Body Corporate of NBN Co) by one or more persons (other than NBN Co, or any Related Body Corporate of NBN Co) to fund Capital Expenditure, including the 2022 FW Grant, but excluding:

(i) GST;

(ii) any revenue earned in connection with Non-WAPC Core Service Charges; and

(iii) any amounts which NBN Co receives or is entitled to receive by way of grant or distribution under the Regional Broadband Scheme,

net of any such monies repaid by NBN Co or any Related Body Corporate of NBN Co.

[…]

Commented [A3]: **Note to the ACCC:** this is a new definition to give effect to the position described above, where grant funding for capex received after the 'Initial Regulatory Period' will be netted from capex as part of the RAB roll-forward. This definition is to work together with the changes to clause 2G.5, below.

Commented [A4]: **Note to the ACCC:** the SAU definitions of Capital Expenditure, Operating Expenditure and Revenue are drafted to expressly exclude GST. This new definition of Relevant Grant Funding takes the same approach, for clarity and consistency.

Commented [A5]: **Note to the ACCC:** to give effect to the position explained above, this definition expressly excludes certain contractual revenues from the definition of Relevant Grant Funding, such as amounts earned by **nbn** through charging third parties for the construction of infrastructure through **nbn**'s Technology Choice Program or through agreements with third parties for network upgrades which are equivalent to **nbn**'s Technology Choice Program.

nbn has given effect to that position here by excluding revenues earned in connection with 'Non-WAPC Core Services Charges'. While that term was defined for a different purpose in the November SAU Variation (ie, for use in the WAPC provisions under Module 2), **nbn** has also used that term here for convenience, as it accurately captures the types of items which are appropriately excluded from the definition of 'Relevant Grant Funding'.

In addition, the use of that term here ensures the proper functioning of the WAPC as it applies in its second phase (ie, after the WAPC Factor Change Year) – noting that the forecast revenue from Non-WAPC Core Service Charges is deducted from the Annual WAPC Revenue Requirement.

Commented [A6]: **Note to the ACCC:** for clarity, and as mentioned above, the definition of Relevant Grant Funding expressly excludes RBS amounts received by **nbn**.

Commented [A7]: **Note to the ACCC:** this definition provides that Relevant Grant Funding is net of such monies repaid by **nbn**, to account for the fact that some grant funding arrangements may require **nbn** to repay some portion of the grant funding if specified criteria are met.

Where such a repayment takes place, it is appropriate that those monies repaid be deducted from the value of Relevant Grant Funding in the Financial Year in which the repayment is made. Otherwise, the value of Relevant Grant Funding would be higher than the net value of funding to **nbn**.

[…]

Revenue means:

(a) during the Initial Regulatory Period, all revenue earned by NBN Co, or any Related Body Corporate of NBN Co, in connection with the Relevant Assets (net of all rebates, credits and allowances), including all revenue earned in connection with:

(i) the Product Components and Product Features;

(ii) the Ancillary Services; and

(iii) the Facilities Access Service,

and including any applicable Taxes, interest, late payment fees or any other similar additional amount earned by NBN Co, or any Related Body Corporate of NBN Co, or any monies paid by one or more persons (other than NBN Co or any Related Body Corporate of NBN Co) in connection with a Third Party Funded Network Change, but excluding:

(iv) GST; and

(v) any consideration received by NBN Co or any Related Body Corporate of NBN Co as a result of the divestiture of Relevant Assets;

(b) during the Subsequent Regulatory Period, all revenue earned by NBN Co, or any Related Body Corporate of NBN Co, in connection with the Relevant Assets (net of all rebates, credits and allowances, except amounts paid in connection with service standards commitments), including all revenue earned in connection with:

(i) the Product Components and Product Features;

(ii) the Ancillary Services; and

(iii) the Facilities Access Service,

and including any applicable Taxes, interest, late payment fees or any other similar additional amount earned by NBN Co, or any Related Body Corporate of NBN Co, or any monies paid by one or more persons (other than NBN Co or any Related Body Corporate of NBN Co) in connection with a Third Party Funded Network Change, but excluding:

(iv) GST;

(v) any consideration received by NBN Co or any Related Body Corporate of NBN Co as a result of the divestiture of Relevant Assets; ~~and~~

(vi) any amounts which NBN Co receives or is entitled to receive by way of grant or distribution under the Regional Broadband Scheme; and

(vii) any Relevant Grant Funding; and

(c) during the Post-2032 Regulatory Period, all revenue earned by NBN Co, or any Related Body Corporate of NBN Co, in connection with the Relevant Assets (net of all rebates, credits and allowances, except amounts paid in connection with service standards commitments), including all revenue earned in connection with:

(i) the Product Components and Product Features;

Commented [A8]: **Note to the ACCC:** the defined term 'Revenue' applies differently in the Initial Regulatory Period, the Subsequent Regulatory Period and the Post-2032 Regulatory Period, to account for the different uses to which the defined term 'Revenue' is put in those periods (under Modules 1, 2 and 3 of the SAU, respectively).

To give effect to the position explained further above, **nbn** proposes to amend the definition of 'Revenue' as it applies *after* the Initial Regulatory Period, so that it excludes Relevant Grant Funding received after the Initial Regulatory Period (which will be netted from the RAB rather than treated as Revenue).

Commented [A9]: **Note to the ACCC:** the definition of 'Third Party Funded Network Changes' is extracted and addressed further below.

Commented [A10]: **Note to the ACCC:** as noted above, this change to (b) has the effect of excluding Relevant Grant Funding from the definition of 'Revenue' as used in the Subsequent Regulatory Period / Module 2 of the SAU.

Note that, given the change to the ICRA arrangements and the move from a revenue cap to a weighted average price control under the November SAU Variation, the defined term 'Revenue' has a limited role to play in the Subsequent Regulatory Period / under Module 2 of the SAU. It is primarily relevant in determining the 'WAPC Factor Change Year' (which marks the transition to the second phase of the WAPC), noting that term is defined by reference to the terms 'Annual Core Services Forecast Revenue' and 'Core Services Revenue', which in turn rely on the defined term 'Revenue'.

In addition, the defined term 'Revenue' is used in the Subsequent Regulatory Period as follows:

- an **nbn** RMA and ACCC RMD for the Subsequent Regulatory Period must include forecasts of certain revenue figures which rely on the term 'Revenue' in their respective definitions – such as the 'Annual Core Services Forecast Revenue' and the 'Annual WAPC Services Forecast Revenue' – see clause 5.3(a)(iv) of the November SAU Variation;
- the WAPC Revenue Requirement involves subtracting the 'Annual Non-WAPC Core Services Forecast Revenue' from the 'Forecast Nominal Core Services ABBRR' (see clause 2G.4.1), where the former term is defined by reference to the defined term 'Revenue'.

(ii) the Ancillary Services; and

(iii) the Facilities Access Service,

and including:

(iv) any applicable Taxes, interest, late payment fees or any other similar additional amount earned by NBN Co, or any Related Body Corporate of NBN Co, or any monies paid by one or more persons (other than NBN Co or any Related Body Corporate of NBN Co) in connection with a Third Party Funded Network Change; and

(v) the forecast net amount that NBN Co will be entitled to receive by way of grant or distribution under the Regional Broadband Scheme (taking into account the forecast amount that NBN Co will be liable to pay under that scheme, excluding any administrative cost amounts) in relation to a Financial Year,

but excluding:

(vi) GST; ~~and~~

(vii) any consideration received by NBN Co or any Related Body Corporate of NBN Co as a result of the divestiture of Relevant Assets; and

(viii) any Relevant Grant Funding.

[…]

Third Party Funded Network Change means a Network Change, or variation, change, augmentation or enhancement to the design, engineering or construction of the Relevant Assets:

(a) to the extent that one or more persons (other than NBN Co or any Related Body Corporate of NBN Co) have agreed to fund or underwrite (in whole or in part) the Capital Expenditure and, if relevant, the Operating Expenditure, in accordance with a contract, arrangement or understanding between NBN Co or any Related Body Corporate of NBN Co and that person; and

(b) in respect of which, at the time of entering into such a contract, arrangement or understanding, NBN Co is satisfied that there was a zero or positive expected net present value of incremental Operating Expenditure, Capital Expenditure, tax and Revenue over the term of the contract, arrangement or understanding.

[…]

Commented [A11]: **Note to the ACCC:** as noted above, this change to (c) has the effect of excluding Relevant Grant Funding from the definition of 'Revenue' as used in the Post-2032 Regulatory Period / Module 3 of the SAU.

The defined term 'Revenue' has a limited role to play in the Post-2032 Regulatory Period / under Module 3 of the SAU. In particular, that term is used in clause 3B.3.1(a), which provides that an ACCC Replacement Module Determination for a Regulatory Cycle in the Post-2032 Regulatory Period must allow **nbn** a reasonable opportunity to earn Revenues in that cycle equal to the sum of the Annual Regulated Revenue Allowance for the years in that cycle.

In combination with the other changes in this document, this means that:

- the **nbn** 'Revenues' which are relevant to that general Module 3 principle exclude any Relevant Grant Funding to be received by **nbn**; and
- Relevant Grant Funding will instead be netted from the RAB as part of the RAB roll forward process – which in turn will affect the calculation of the Annual Regulated Revenue Allowance under Module 3 (making it lower than it otherwise would have been).

Commented [A12]: **Note to the ACCC:** the term 'Third Party Funded Network Changes' was included in the 2013 SAU, principally to inform the Module 1 provisions regarding the recognition of prudent expenditure in the Initial Regulatory Period – see clauses 1D.3.2(a)(ii) and 1E.8.2(a)(ii) of the 2013 SAU.

In addition, monies received in connection with 'Third Party Funded Network Changes' were expressly *included* in the definition of 'Revenue' in the 2013 SAU for clarity, as noted by the ACCC in October 2013 (see pp. 71-72 of the ACCC's explanatory statement here). The November SAU Variation adopts the same approach, as shown above in the definition of 'Revenue'.

While the concept of 'Relevant Grant Funding' is similar to 'monies received in connection with Third Party Funded Network Changes', **nbn** has not used that latter term to give effect to the position explained above (and instead has defined a new term for that purpose, being 'Relevant Grant Funding'). This is because the term 'Third Party Funded Network Changes' was principally developed for a different purpose (the Module 1 expenditure provisions) and does not neatly reflect the specific type of funding **nbn** seeks to describe with the new term 'Relevant Grant Funding'.

As a result, monies received by **nbn** in connection with a Third Party Funded Network Change are included as 'Revenue', except in the Subsequent and Post-2032 Regulatory Periods to the extent that such monies constitute Relevant Grant Funding.

Schedule 2G ABBRR and WAPC Revenue Requirement

[...]

PART A – ABBRR and WAPC Revenue Requirement

2G.5 Calculation of the Regulatory Asset Base

2G.5.1 Real RAB at the commencement of the Subsequent Regulatory Period

The Real RAB at the commencement of the Subsequent Regulatory Period will be equal to the Real RAB at the end of the Initial Regulatory Period, determined in accordance with clause 1D.2.

2G.5.2 Real Core Services RAB Portion at the commencement of the Subsequent Regulatory Period

(a) The Real Core Services RAB Portion at the commencement of the Subsequent Regulatory Period will be equal to the Real Core Services RAB Portion at the end of the Initial Regulatory Period, calculated by rolling forward the Real Core Services RAB Portion as at 1 July 2021 referred to in clause 2G.5.2(b) for the Financial Years 2021/22 and 2022/23, using the following methodology:

$$\begin{aligned} Real\ Core\ Services\ RAB\ Portion_{y}^{start} &= Real\ Core\ Services\ RAB\ Portion_{y-1}^{end} \\ &= Real\ Core\ Services\ RAB\ Portion_{y-1}^{start} + Real\ Core\ Services\ Capex_{y-1} \\ &\quad - Real\ Core\ Services\ Disposals_{y-1} - Real\ Core\ Services\ Depreciation_{y-1} \end{aligned}$$

where:

y is the Financial Year for which the Real Core Services RAB Portion is being calculated (where y starts with the Financial Year 2022/23 and finishes with the Financial Year 2023/24).

$Real\ Core\ Services\ RAB\ Portion_{y}^{start}$ is the Real Core Services RAB Portion at the start of the Financial Year (y).

$Real\ Core\ Services\ RAB\ Portion_{y-1}^{end}$ is the Real Core Services RAB Portion at the end of the immediately preceding Financial Year (y–1).

$Real\ Core\ Services\ Capex_{y-1}$ is the real Capital Expenditure incurred in Financial Year (y-1) allocated to the Core Services RAB Portion, calculated by:

(i) taking the real Capital Expenditure added to the Real RAB in respect of Financial Year (y-1), as determined in the LTRCM Determination issued by the ACCC in respect of Financial Year (y-1) in accordance with clause 1E.1.2; and

(ii) allocating costs in accordance with the Cost Allocation Principles.

$Real\ Core\ Services\ Disposals_{y-1}$ is the real value of any Disposals of Relevant Assets included in the Core Services RAB Portion during Financial Year (y–1).

$Real\ Core\ Services\ Depreciation_{y-1}$ is the real value of the depreciation applicable to the opening value of the Relevant Assets included in the Core Services RAB Portion at the start of Financial Year (y-1), calculated in accordance with the approach to determining the regulatory depreciation allowance of the RAB on the same basis as set out in clause 1E.8.

Commented [A13]: **Note to the ACCC:** clauses 2G.5.1 and 2G.5.2 of the SAU relate to determining the opening RAB (and Core Services RAB Portion) as at the start of the Subsequent Regulatory Period. These provisions have been included in this document for completeness only – noting they will be relevant when rolling forward the RAB to the start of the second Regulatory Cycle and therefore do not require any changes to reflect the proposed treatment of Relevant Grant Funding received from July 2023 (the start of the Subsequent Regulatory Period) onwards.

(b) For the purposes of clause 2G.5.2(a), the Real Core Services RAB Portion as at 1 July 2021 is equal to the value of the Real Core Services RAB Portion as at 30 June 2021, which is equal to $25,460,959,000.51, as calculated by NBN Co by applying a cost allocation methodology to the value of the Real RAB as at 30 June 2021 as specified in the LTRCM Determination for Financial Year 2020/21 issued by the ACCC in accordance with clause 1E.1.2.

2G.5.3 Real RAB in respect of a Regulatory Cycle

(a) The Real RAB at the commencement of a Regulatory Cycle, other than the first Regulatory Cycle, will be equal to the Real RAB at the end of the immediately preceding Regulatory Cycle, calculated by rolling forward the Real RAB at the commencement of that immediately preceding Regulatory Cycle for each Financial Year (t) within the Regulatory Cycle using the following methodology:

$$\begin{aligned} Real\ RAB_t^{start} &= Real\ RAB_{t-1}^{end} \\ &= Real\ RAB_{t-1}^{start} + Real\ Capex_{t-1} - Real\ Disposals_{t-1} - Real\ Depreciation_{t-1} \end{aligned}$$

where:

t is the Financial Year for which the Real RAB is being calculated.

$Real\ RAB_t^{start}$ is the Real RAB at the start of the Financial Year (t).

$Real\ RAB_{t-1}^{end}$ is the Real RAB at the end of the immediately preceding Financial Year (t–1).

$Real\ Capex_{t-1}$ is the real Capital Expenditure during the immediately preceding Financial Year (t–1).

$Real\ Disposals_{t-1}$is the real value of any Disposals of Relevant Assets during the immediately preceding Financial Year(t–1).

$Real\ Depreciation_{t-1}$ is the real value of the depreciation applicable to the opening value of the Relevant Assets included in the RAB at the start of the immediately preceding Financial Year (t-1).

(b) For the purposes of clause 2G.5.3(a):~~,~~

(i) the real value of Capital Expenditure, Disposals and depreciation for each Financial Year in a particular Regulatory Cycle will be determined in accordance with clause 2G.5.10; and

(ii) subject to clause 2G.5.11(a), the real Capital Expenditure for each Financial Year is net of real Relevant Grant Funding in that Financial Year.

Commented [A14]: **Note to the ACCC:** this clause (and its equivalents in clauses 2G.5.4(b)(ii), 2G.5.6(b) and 2G.5.7(c) below) are the primary operative clauses that give effect to the overarching principle that Capital Expenditure is net of Relevant Grant Funding (as explained further above).

2G.5.4 Real Core Services RAB Portion in respect of a Regulatory Cycle

(a) The Real Core Services RAB Portion at the commencement of a Regulatory Cycle, other than the First Regulatory Cycle, will be equal to the Real Core Services RAB Portion at the end of the immediately preceding Regulatory Cycle, calculated by rolling forward the Real Core Services RAB Portion at the commencement of that immediately preceding Regulatory Cycle for each Financial Year (t) within the Regulatory Cycle using the following methodology:

$$\begin{aligned} Real\ Core\ Services\ RAB\ Portion_t^{start} &= Real\ Core\ Services\ RAB\ Portion_{t-1}^{end} \\ &= Real\ Core\ Services\ RAB\ Portion_{t-1}^{start} + Real\ Core\ Services\ Capex_{t-1} \\ &\quad - Real\ Core\ Services\ Disposals_{t-1} - Real\ Core\ Services\ Depreciation_{t-1} \end{aligned}$$

where:

t is the Financial Year for which the Real Core Services RAB Portion is being calculated.

$Real\ Core\ Services\ RAB\ Portion_t^{start}$ is the Real Core Services RAB Portion at the start of the Financial Year (t).

$Real\ Core\ Services\ RAB\ Portion_{t-1}^{end}$ is the Real Core Services RAB Portion at the end of the immediately preceding Financial Year (t–1).

$Real\ Core\ Services\ Capex_{t-1}$ is the real Capital Expenditure allocated to the Core Services RAB Portion in accordance with the Cost Allocation Principles during the immediately preceding Financial Year (t–1).

$Real\ Core\ Services\ Disposals_{t-1}$ is the real value of any Disposals of Relevant Assets included in the Core Services RAB Portion during the immediately preceding Financial Year (t–1).

$Real\ Core\ Services\ Depreciation_{t-1}$ is the real value of the depreciation applicable to the opening value of the Relevant Assets included in the Core Services RAB Portion at the start of the immediately preceding Financial Year (t-1).

(b) For the purposes of clause 2G.5.4(a): ~~,~~

(i) the real value of Capital Expenditure allocated to the Real Core Services RAB Portion, Disposals of Relevant Assets included in the Core Services RAB Portion and the depreciation applicable to the Relevant Assets included in the Core Services RAB Portion for each Financial Year in a particular Regulatory Cycle will be determined in accordance with clause 2G.5.10; and

(ii) subject to clause 2G.5.11(a), the real Capital Expenditure allocated to the Real Core Services RAB Portion for each Financial Year is net of real Relevant Grant Funding in connection with Core Regulated Services in that Financial Year.

[…]

2G.5.6 Forecast Real RAB for calculating Forecast Nominal ABBRR

(a) For the purposes of calculating the Forecast Nominal ABBRR pursuant to clause 2G.2.1(a), the Real RAB at the start of each Financial Year will be:

(i) in respect of the first Financial Year of a Regulatory Cycle:

(A) if the Regulatory Cycle is the First Regulatory Cycle, determined in accordance with clause 2G.5.1, calculated on the basis that an amount of Capital Expenditure, Disposals or depreciation may be estimated for any part of the Initial Regulatory Period for which actual values are not available; or

(B) otherwise, the value of the Real RAB at the end of the last Financial Year in the immediately preceding Regulatory Cycle, determined in accordance with clause 2G.5.3(a):

(I) calculated on the basis that an amount of Capital Expenditure, Relevant Grant Funding, Disposals or depreciation may be estimated for any part of the immediately preceding Regulatory Cycle for which actual values are not available; and

(II) adjusted to remove the effect of any difference between the Real RAB at the start of the first Financial Year of the immediately preceding Regulatory Cycle that was determined using any estimated amounts under this clause 2G.5.6

Commented [A15]: **Note to the ACCC:** this clause is the equivalent of the change in clause 2G.5.3 above, except that this change relates to calculating the 'Real Core Services RAB Portion' rather than the total RAB. Consistent with the broader operation of the SAU framework (this clause 2G and the Module 0 provisions), the amount of the total Relevant Grant Funding received in a year which is in connection with Core Regulated Services would be proposed by **nbn** and determined by the ACCC as part of the Replacement Module process. However, **nbn** notes its expectation that, by its nature, all Relevant Grant Funding would be in connection with Core Regulated Services (and not Competitive Services).

Commented [A16]: **Note to the ACCC:** this clause 2G.5.6(a) relates to setting the RAB for the purposes of calculating the Forecast Nominal ABBRR for the first financial year of an upcoming regulatory cycle. In particular, it provides for the inputs of the RAB roll-forward formula to be estimated, given they may not be known precisely at the time of setting the Forecast Nominal ABBRR. The change to this clause shown makes clear that Relevant Grant Funding (an input into the RAB roll-forward) can also be estimated if actual values are not available.

The same change is not required in clause 2G.5.6(a)(i)(A) above, as that clause only applies to estimation for the RAB at the start of the Subsequent Regulatory Period, and the new treatment of Relevant Grant Funding only applies to such funding received from the Subsequent Regulatory Period onwards.

and the Real RAB at the start of the first Financial Year of the immediately preceding Regulatory Cycle as determined using the corresponding actual amounts; and

(ii) in respect of a Financial Year (t) in a Regulatory Cycle other than the first Financial Year of the Regulatory Cycle, forecast according to the following methodology:

$$\begin{aligned} Forecast\ Real\ RAB_t^{start} &= Forecast\ Real\ RAB_{t-1}^{end} \\ &= Forecast\ Real\ RAB_{t-1}^{start} + Forecast\ Real\ Capex_{t-1} \\ &\quad - Forecast\ Real\ Disposals_{t-1} - Forecast\ Real\ Depreciation_{t-1} \end{aligned}$$

where:

t is the Financial Year for which a forecast of the Real RAB at the start of the Financial Year is being calculated.

$Forecast\ Real\ RAB_t^{start}$ is the forecast Real RAB at the start of the Financial Year (t).

$Forecast\ Real\ RAB_{t-1}^{end}$ is the forecast of the Real RAB at the end of the immediately preceding Financial Year (t-1).

$Forecast\ Real\ RAB_{t-1}^{start}$ is the forecast of the Real RAB at the start of the immediately preceding Financial Year (t-1).

$Forecast\ Real\ Capex_{t-1}$ is the forecast of prudent and efficient real Capital Expenditure in connection with the design, engineering, construction, replacement and augmentation of the Relevant Assets for the relevant Financial Year (t-1), including any Capital Expenditure to be incurred pursuant to the Telstra Arrangements or the Optus Arrangements, forecast in accordance with clause 2G.2.5.

$Forecast\ Real\ Disposals_{t-1}$ is the forecast of the real value of any Disposals of Relevant Assets during the immediately preceding Financial Year (t-1).

$Forecast\ Real\ Depreciation_{t-1}$ is the forecast of the real value of the depreciation applicable to the opening real value of the Relevant Assets included in the forecast Real RAB in the immediately preceding Financial Year (t-1).

(b) For the purposes of clauses 2G.5.6(a)(i)(B) and 2G.5.6(a)(ii), and subject to clause 2G.5.11(a), real Capital Expenditure for each Financial Year (as estimated or forecast, as relevant) is net of real Relevant Grant Funding in that Financial Year (as estimated or forecast, as relevant).

Commented [A17]: **Note to the ACCC:** see the explanation of this clause in the comment above on clause 2G.5.3(b).

2G.5.7 Forecast Real Core Services RAB Portion for calculating Forecast Nominal Core Services ABBRR

For the purposes of calculating the Forecast Nominal Core Services ABBRR pursuant to clause 2G.2.2(a), the Real Core Services RAB Portion at the start of each Financial Year will be:

(a) in respect of the first Financial Year of a Regulatory Cycle:

(i) if the Regulatory Cycle is the First Regulatory Cycle, determined in accordance with clause 2G.5.2(a), calculated on the basis that an amount of Capital Expenditure, Disposals or depreciation may be estimated for any part of the Initial Regulatory Period for which actual values are not available; or

(ii) otherwise, the value of the Real Core Services RAB Portion at the end of the last Financial Year in the immediately preceding Regulatory Cycle, determined in accordance with the methodology in clause 2G.5.4(a):

(A) calculated on the basis that an amount of Capital Expenditure, Relevant Grant Funding, Disposals or depreciation may be estimated for any part of the immediately preceding Regulatory Cycle for which actual values are not available; and

(B) adjusted to remove the effect of any difference between the Real Core Services RAB Portion at the start of the first Financial Year of the immediately preceding Regulatory Cycle that was determined using any estimated amounts under this clause 2G.5.7 and the Real Core Services RAB Portion at the start of the first Financial Year of the immediately preceding Regulatory Cycle as determined using the corresponding actual amounts; and

(b) in respect of a Financial Year (t) in a Regulatory Cycle other than the first Financial Year of the Regulatory Cycle, forecast according to the following methodology:

$$\begin{aligned} \mathit{Forecast\ Real\ Core\ Services\ RAB\ Portion}_t^{start} &= \mathit{Forecast\ Real\ Core\ Services\ RAB\ Portion}_{t-1}^{end} \\ &= \mathit{Forecast\ Real\ Core\ Services\ RAB\ Portion}_{t-1}^{start} \\ &+ \mathit{Forecast\ Real\ Core\ Services\ Capex}_{t-1} \\ &- \mathit{Forecast\ Real\ Core\ Services\ Disposals}_{t-1} \\ &- \mathit{Forecast\ Real\ Core\ Services\ Depreciation}_{t-1} \end{aligned}$$

where:

t is the Financial Year for which a forecast of the Real RAB at the start of the Financial Year is being calculated.

$\mathit{Forecast\ Real\ Core\ Services\ RAB\ Portion}_t^{start}$ is the forecast of the Real Core Services RAB Portion at the start of the Financial Year (t).

$\mathit{Forecast\ Real\ Core\ Services\ RAB\ Portion}_{t-1}^{end}$ is the forecast of the Real Core Services RAB Portion at the end of the immediately preceding Financial Year (t-1).

$\mathit{Forecast\ Real\ Core\ Services\ RAB\ Portion}_{t-1}^{start}$ is the forecast of the Real Core Services RAB Portion at the start of the immediately preceding Financial Year (t-1).

$\mathit{Forecast\ Real\ Core\ Services\ Capex}_{t-1}$ is the forecast of prudent and efficient real Capital Expenditure in connection with the design, engineering, construction, replacement and augmentation of the Relevant Assets for the relevant Financial Year (t-1), including any Capital Expenditure to be incurred pursuant to the Telstra Arrangements or the Optus Arrangements, allocated to the Core Services RAB Portion in accordance with the Cost Allocation Principles, forecast in accordance with clause 2G.2.5.

$\mathit{Forecast\ Real\ Core\ Services\ Disposals}_{t-1}$ is the forecast of the real value of any Disposals of Relevant Assets included in the Core Services RAB Portion during the immediately preceding Financial Year (t-1).

$\mathit{Forecast\ Real\ Core\ Services\ Depreciation}_{t-1}$ is the forecast of the real value of the depreciation applicable to the opening real value of the Relevant Assets included in the forecast Real Core Services RAB Portion in the immediately preceding Financial Year (t-1).

(c) For the purposes of clauses 2G.5.7(a)(ii) and 2G.5.7(b), and subject to clause 2G.5.11(a), real Capital Expenditure for each Financial Year (as estimated or forecast, as relevant) is net of real Relevant Grant Funding in connection with Core Regulated Services in that Financial Year (as estimated or forecast, as relevant).

[…]

Commented [A18]: **Note to the ACCC:** this change is equivalent to the change explained in clause 2G.5.6(a)(i)(B)(I), above.

Commented [A19]: **Note to the ACCC:** see:
- the explanation of this clause in the comment above on clause 2G.5.3(b); and
- the comment above on the clause 2G.5.4(b), which similarly applies only in connection with Core Regulated Services.

2G.5.10 ACCC determination of value for the RAB roll forward

(a) Any Replacement Module Application in respect of a Regulatory Cycle must propose, and any ACCC Replacement Module Determination in respect of a Regulatory Cycle must determine:

(i) the Real RAB and the Real Core Services RAB Portion at the end of each Financial Year within the immediately preceding Regulatory Cycle (in this clause 2G.5.10, the Previous Regulatory Cycle), calculated:

(A) in accordance with clauses 2G.5.3 and 2G.5.4; and

(B) in accordance with the values referred to in clause 2G.5.10(a)(ii)–(vi);

(ii) the Real RAB at the start of the first Financial Year of the Previous Regulatory Cycle, calculated in accordance with:

(A) clause 2G.5.1, in respect of the First Regulatory Cycle; and

(B) clause 2G.5.3, in respect of all Regulatory Cycles after the First Regulatory Cycle;

Note*: This value would previously have been estimated as an input into the Forecast Nominal ABBRR applying for the relevant Regulatory Cycle.*

(iii) the value of the Real Core Services RAB Portion at the start of the first Financial Year of the Previous Regulatory Cycle, calculated in accordance with:

(A) clause 2G.5.2, in respect of the First Regulatory Cycle; and

(B) clause 2G.5.4, in respect of all Regulatory Cycles after the First Regulatory Cycle;

Note*: This value would previously have been estimated as an input into the Forecast Nominal Core Services ABBRR applying for the relevant Regulatory Cycle.*

(iv) the amount of Capital Expenditure to be added to each of the Real RAB and the Real Core Services RAB Portion (respectively) for each Financial Year within the Previous Regulatory Cycle, determined in accordance with the rules and process described in clause 2G.5.10(b), where:

(A) Capital Expenditure will be allocated to the Core Services RAB Portion in accordance with the Cost Allocation Principles;

(B) the amount of Capital Expenditure to be added to the Real RAB will be net of Relevant Grant Funding in that Financial Year; and

(C) the amount of Capital Expenditure to be added to the Real Core Services RAB Portion will be net of Relevant Grant Funding in connection with Core Regulated Services in that Financial Year;

(v) the real value of the depreciation applicable to the Relevant Assets included in each of the Real RAB and Real Core Services RAB Portion (respectively) for each Financial Year within the Previous Regulatory Cycle, determined in accordance with clause 2G.5.5(a); and

(vi) the real value of any Disposals of Relevant Assets included in the Real RAB and Real Core Services RAB Portion for each Financial Year within the Previous Regulatory Cycle.

(b) In determining the matters referred to in clause 2G.5.10(a) as part of issuing an ACCC Replacement Module Determination:

Commented [A20]: **Note to the ACCC:** this change works together with the changes to clauses 2G.5.3(b)(ii), 2G.5.4(b)(ii), 2G.5.6(b) and 2G.5.7(c) above to give effect to the proposed treatment of Relevant Grant Funding.

Related changes to clause 2G.5.10(b) below are not required, as this clause 2G.5.10(a)(iv) does the work of ensuring the relevant netting off occurs as part of the RAB roll-forward process.

(i) the ACCC may estimate amounts of Capital Expenditure, Relevant Grant Funding, Disposals or depreciation for any part of the Regulatory Cycle for which actual values are not available;

(ii) the ACCC will have regard to the total forecast of Capital Expenditure and the forecast of Capital Expenditure allocated to the Core Services RAB Portion for each of the relevant Financial Years of the Previous Regulatory Cycle (as stated in the ACCC Replacement Module Determination for the Previous Regulatory Cycle);

(iii) Capital Expenditure will be recognised at the time the Relevant Asset (to which the Capital Expenditure relates) is, or is estimated to be, Placed in Service;

(iv) the ACCC will:

(A) include all actual Capital Expenditure in the Real RAB (and the Real Core Services RAB Portion, as relevant) which the ACCC determines was (or is likely to be) incurred prudently and efficiently by NBN Co in achieving the Expenditure Objectives; and

(B) to the extent that the ACCC does not include actual Capital Expenditure in the Real RAB (and the Real Core Services RAB Portion, as relevant), the ACCC must instead include an amount of Capital Expenditure in the Real RAB (and the Real Core Services RAB Portion, as relevant) which the ACCC determines would have been (or would be) incurred prudently and efficiently by NBN Co in achieving the Expenditure Objectives;

(v) the ACCC will have regard to the Expenditure Factors when determining whether NBN Co's Capital Expenditure was (or is likely to be) incurred prudently and efficiently, as those factors would be construed at the time NBN Co incurred (or was likely to incur) the relevant Capital Expenditure;

(vi) the ACCC will assess whether NBN Co incurred Capital Expenditure prudently and efficiently based on the circumstances existing, and information and analysis that an operator in NBN Co's position could reasonably have been expected to have considered or undertaken, at the time NBN Co incurred the relevant Capital Expenditure;

Note*: This sub-clause (vi) applies to the extent that NBN Co has incurred the relevant Capital Expenditure. It does not apply to the extent that the ACCC's determination relates to Capital Expenditure that is likely to be incurred.*

(vii) for the purposes of clause 2G.5.10(b)(iv), Capital Expenditure incurred on a project or program which is the subject of a Government Policy Project Notice was or is likely to be incurred prudently to the extent incurred or likely to be incurred in a manner that implements the details of that project or program as specified in that Government Policy Project Notice (and otherwise will be assessed as to whether it was or is likely to be incurred prudently, including to the extent no such details are specified in the relevant notice, and also will be assessed as to whether it was or is likely to be incurred efficiently); and

(viii) in respect of a project or program which is the subject of a Government Policy Project Notice for which a maximum amount of Capital Expenditure per Financial Year is specified in the relevant Government Policy Project Notice, the ACCC may cap the amount of Capital Expenditure to be included in the Real RAB and Real Core Services RAB Portion for the relevant Financial Year at the relevant maximum amount specified in that Government Policy Project Notice.

2G.5.11 Treatment of the 2022 FW Grant

For the purposes of clauses 2G.5.3, 2G.5.4, 2G.5.6 and 2G.5.7, and despite the definition of "Revenue" as it applied in the Initial Regulatory Period, the 2022 FW Grant is to be recognised as Relevant Grant Funding and netted from Capital Expenditure (and from Capital Expenditure in connection with Core Regulated Services, as relevant), in real terms, at the following amount in Financial Year 2023/24: $403,108,643.93, net of any amount repaid by NBN Co (or any Related Body Corporate of NBN Co) in respect of the 2022 FW Grant in Financial Year 2023/24.

[…]

Commented [A21]: **Note to the ACCC:** this clause gives effect to the specific transitional rule described above in respect of the 2022 FW Grant, which was received in the 'Initial Regulatory Period' under the current SAU and would ordinarily be treated as 'Revenue' under the Module 1 provisions of the current SAU, in turn flowing through to the ICRA calculation.

This effect of this clause is that the 2022 FW Grant will be netted from capital expenditure for FY24 as part of the roll-forward of both the RAB and the Core Services RAB Portion for that year. This reflects that the entire 2022 FW Grant was received in connection with **nbn**'s Core Regulated Services. **nbn** notes that if part of the 2022 FW Grant was instead considered to be received in connection with Competitive Services, then the amount of that grant netted from the Core Services RAB Portion would be lower (resulting in a higher Core Services ABBRR).

The amount stated in this clause (of ~$403m) is the value of the 2022 FW Grant stated in real terms, measured in FY14 dollar terms (consistent with clause 2G.1.5 regarding the calculation of real values for the purposes of the SAU).

Commented [A22]: **Note to the ACCC:** this aspect of the clause is consistent with the definition of Relevant Grant Funding. As noted above, that definition accounts for the fact that some grant funding arrangements may require **nbn** to repay some portion of the grant funding if specified criteria are met.

Where such a repayment takes place, it is appropriate that those monies repaid be deducted from the value of Relevant Grant Funding in the Financial Year in which the repayment is made. Otherwise, the value of Relevant Grant Funding would be higher than the net value of funding to **nbn**.

Should any of the 2022 FW Grant be repaid after FY24, that would be accounted for in the general RAB roll-forward clauses above – noting that the Dictionary definition of Relevant Grant Funding expressly includes the 2022 FW Grant and is defined to be net of such monies repaid by **nbn**.

Schedule 3B Principles applying in the Post-2032 Regulatory Period

[…]

3B.3 Annual Regulated Revenue Allowance

Commented [A23]: Note to the ACCC: the changes to Schedule 3B reflect the changes that have been proposed in Module 2 above.

[…]

3B.3.3 Forecast Real RAB for calculating Forecast Nominal ABBRR

(a) For the purposes of calculating the Forecast Nominal ABBRR pursuant to clause 3B.3.2, the forecast Real RAB at the start of each Financial Year will be:

(i) in respect of the first Financial Year of a Regulatory Cycle:

(A) the value of the Real RAB at the end of the last Financial Year in the immediately preceding Regulatory Cycle, determined in accordance with clause 3B.4.1:

(I) calculated on the basis that an amount of Capital Expenditure, Relevant Grant Funding, Disposals or depreciation may be estimated for any part of the immediately preceding Regulatory Cycle for which actual values are not available; and

(II) adjusted to remove the effect of any difference between the Real RAB at the start of the first Financial Year of the immediately preceding Regulatory Cycle that was determined using any estimated amounts and the Real RAB at the start of the first Financial Year of the immediately preceding Regulatory Cycle as determined using the corresponding actual amounts under:

a. clause 2G.5.3(a) (in respect of the last Regulatory Cycle within the Subsequent Regulatory Period); and

b. clause 3B.4.1 (in respect of Regulatory Cycles within the Post-2032 Regulatory Period); and

(ii) in respect of a Financial Year in a Regulatory Cycle other than the first Financial Year of the Regulatory Cycle, forecast according to the following methodology:

$$\begin{aligned} Forecast\ Real\ RAB_t^{start} &= Forecast\ Real\ RAB_{t-1}^{end} \\ &= Forecast\ Real\ RAB_{t-1}^{start} + Forecast\ Real\ Capex_{t-1} \\ &\quad - Forecast\ Real\ Disposals_{t-1} - Forecast\ Real\ Depreciation_{t-1} \end{aligned}$$

where:

t is the Financial Year for which a forecast of the Real RAB at the start of the Financial Year is being calculated.

$Forecast\ Real\ RAB_t^{start}$ the forecast Real RAB at the start of the Financial Year (t).

$Forecast\ Real\ RAB_{t-1}^{end}$ is the forecast of the Real RAB at the end of the immediately preceding Financial Year (t-1).

$Forecast\ Real\ RAB_{t-1}^{start}$ is the forecast of the Real RAB at the start of the immediately preceding Financial Year (t-1).

$Forecast\ Real\ Capex_{t-1}$ is the forecast of prudent and efficient real Capital Expenditure in connection with the design, engineering, construction, replacement and augmentation of the Relevant Assets for the relevant Financial Year (t-1), including any Capital Expenditure to be incurred pursuant to the Telstra Arrangements or the Optus Arrangements.

$Forecast\ Real\ Disposals_{t-1}$ is the forecast of the real value of any Disposals of Relevant Assets during the immediately preceding Financial Year (t-1).

$Forecast\ Real\ Depreciation_{t-1}$ is the forecast of the real value of the depreciation applicable to the opening real value of the Relevant Assets included in the forecast Real RAB in the immediately preceding Financial Year (t-1).

(b) For the purposes of clause 3B.3.3(a), real Capital Expenditure for each Financial Year (as estimated or forecast, as relevant) is net of real Relevant Grant Funding in that Financial Year (as estimated or forecast, as relevant).

[...]

3B.4 Regulatory Asset Base

3B.4.1 Real RAB in respect of a Regulatory Cycle in the Post-2032 Regulatory Period

(a) The Real RAB at the commencement of a Regulatory Cycle in the Post-2032 Regulatory Period (including the first Regulatory Cycle of the Post-2032 Regulatory Period) will be equal to the Real RAB at the end of the immediately preceding Regulatory Cycle, calculated by rolling forward the Real RAB at the commencement of that immediately preceding Regulatory Cycle for each Financial Year (t) within the Regulatory Cycle using the following methodology:

$$\begin{aligned} Real\ RAB_t^{start} &= Real\ RAB_{t-1}^{end} \\ &= Real\ RAB_{t-1}^{start} + Real\ Capex_{t-1} - Real\ Disposals_{t-1} - Real\ Depreciation_{t-1} \end{aligned}$$

where:

t is the Financial Year for which the Real RAB is being calculated.

$Real\ RAB_t^{start}$ is the Real RAB at the start of the Financial Year (t).

$Real\ RAB_{t-1}^{end}$ is the Real RAB at the end of the immediately preceding Financial Year (t–1).

$Real\ Capex_{t-1}$ is the prudent and efficient real Capital Expenditure, net of real Relevant Grant Funding, during the immediately preceding Financial Year (t–1).

$Real\ Disposals_{t-1}$ is the real value of any Disposals of Relevant Assets during the immediately preceding Financial Year (t–1).

$Real\ Depreciation_{t-1}$ is the real value of the depreciation applicable to the opening value of the Relevant Assets included in the RAB at the start of the immediately preceding Financial Year (t-1).

(b) For the purposes of determining the Real RAB at the commencement of the first Regulatory Cycle of the Post-2032 Regulatory Period, the:

(i) Real RAB at the start of the last Regulatory Cycle in the Subsequent Regulatory Period will be calculated in accordance with clause 2G.5.3, notwithstanding clause 2G.1.1; and

(ii) real value of Capital Expenditure, Disposals and depreciation for each Financial Year of the last Regulatory Cycle in the Subsequent Regulatory Period will be the values determined in the ACCC Replacement Module Determination for the first Regulatory Cycle of the Post-2032 Regulatory Period and determined in accordance with clause 2G.5.10 (where references in that clause to the 'Previous Regulatory Cycle' will be references to the last Regulatory Cycle in the Subsequent Regulatory Period), notwithstanding clause 2G.1.1.