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September 15, 2023

Attachment 6: Asset Class Asset Lives and Depreciation

6.1 Executive Summary

Basslink Pty Ltd has adopted a simple approach to Asset Classes that is consistent with the requirements of the Rules.

We have continued to use the asset classes and asset lives that were originally derived by Basslink at the time it created its Fixed Asset Register.

We have adjusted the asset lives on the fixed asset register to be consistent with the AER's determinations on overhead lines for the other TNSPs.

The asset classes, asset lives and tax asset lives are set out in the tables below.

6.2 Regulatory Requirements

National Electricity Rules

The Rules require that TNSP, as part of their revenue determination[58]

> *The NER require that a revenue determination for a TNSP for a regulatory control period specifies "the annual building block revenue requirement for each regulatory year of the regulatory control period."*

Part of the annual building block revenue requirement is the depreciation for each regulatory year of the regulatory control period. This must be calculated in accordance with Rule 6A.6.3, using depreciation schedules that are set out in the TNSP's revenue proposal.[59]

Rule 6A.6.3(b)(1) relevantly requires that the depreciation schedules:

> *except as provided in paragraph [6A.6.3](c), must depreciate using a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets.*

While it is possible to depreciate each asset individually, this provides for significant complexity and creates little benefit in terms of accuracy and has no incentive effect on the incentive of the business to operate the network in accordance with the requirements of the Rules.[60] We have accordingly elected to depreciate based on categories of asset.

While it is possible to estimate the economic life of some assets in a direct way from the amount of use of that asset, this is not the case for electricity transmission assets. So the AER and TNSPs use

[58] NER 6A.4.2(a)(2).
[59] NER 6A.5.4(b)(3).
[60] NER 6A.6.3(b)(2).

a depreciation profile that recovers the cost of the asset over its estimated economic life. In most cases this is a straight-line profile. These models contain the depreciation schedules.

AER's regulatory models

TNSPs are required to use the AER's Regulatory Asset Base Roll Forward Model (RAB RFM) and Post Tax Revenue Model (PTRM). These models calculate historic depreciation for the determination of the value of the regulatory asset base (RAB RFM) and forecast regulatory depreciation for the purpose of calculating the building block revenue.

The mechanics of this calculation in the AER's models are straight forward. There are two inputs relevant to the calculation of depreciation (both historic and forecast):

- Standard Asset Life; and
- Weighted Average Remaining Life.

The Standard Asset Life is the depreciation life of a new asset in that asset class. It is the time period over which the cost of a new asset will be completely recovered[61].

The Weighted Average Remaining Life is in effect a simplification to the calculation of depreciation in subsequent regulatory periods that does not require the monitoring of each year's capital additions to the RAB separately without changing the revenue outcome. It does this by taking a value weighted average of new capex and existing assets. The remaining life of existing assets is reduced by one year and the new capex is added at the standard asset life.

The remaining life is calculated and presented in the Roll Forward Model (**Attachment 5.1**)

Requirements for the Revenue Proposal

The Rules require that a Revenue Proposal include the depreciation schedules proposed by the TNSP, together with:

- details of all amounts, values and other inputs used by the TNSP to compile those depreciation schedules (including an explanation of their calculation); and
- a demonstration that the depreciation schedules conform with the requirements set out in clause 6A.6.3(b).

In order to meet the requirements of the Rules, Basslink proposes:

- categories of assets (regulatory asset classes) and
- their economic life (regulatory asset lives).

These are the inputs and assumptions used to derive Basslink's proposed depreciation schedules using the RAB RFM and PTRM. The proposed depreciation schedules can be found in these models, at **Attachment 5.1 and 4.2**.

The remainder of this attachment explains how the key inputs and assumptions underlying the depreciation schedules have been derived, and how they comply with the applicable NER requirements.

[61] Due to the operation of indexation of the regulatory asset base the asset cost is recovered in real terms.

6.3 Categories of Asset (Regulatory Asset Classes)

Under the Rules a TNSP is required to specify the depreciation schedule by asset or categories of asset and is required to categorise the forecast capital expenditure and depreciation into asset classes[62] which are then used to create forecast depreciation.

The AER and all other TNSPs resolve this difference in terminology in the rules between categories of assets and asset classes by treating the terms interchangeably. For example, see the AER's Regulatory Asset Base Role Forward Model. For consistency Basslink Pty Ltd will use the term asset class to refer to both the Asset Class and Category of Asset.

The terms category of asset and asset class are undefined terms in the Rules. There is no direction in the Law or Rules as to the composition of criteria for creating an asset class.

The function of the asset class is to group assets for the purpose of creating a group with a single standard asset life to simplify the calculation of depreciation. Logically, this means that the necessary condition for creating an asset class is that assigning a single standard asset life is appropriate for the assets that are grouped in that asset class.

For accounting purposes assets are classified into classes[63]:

> *PP&E [Property, Plant and Equipment] items are commonly grouped into classes, which are groups of assets having a similar nature and use. Examples of PP&E classes are buildings, furniture and fixtures, land, machinery, and motor vehicles. Items grouped within a class are typically depreciated using a common depreciation calculation.*

Basslink Pty Ltd has adopted the accounting asset classes in the Basslink Fixed Asset Register given that the driver for creating these classes is the same as the purpose of determining asset classes for regulatory purposes.

This has the additional benefit of allowing Basslink Pty Ltd's capital expenditure dating back to 2002 to be categorised into transparent and simple asset classes that have already been used for accounting purposes.

There are two exceptions to the use of the Basslink Financial Accounting Asset Classes. These are Building Installation and In-house software which have been identified by the AER as having different depreciation treatment for taxation purposes and have been added to the list of asset classes by Basslink for the purpose of catching these types of capital expenditure going forward.

[62] NER
[63] https://www.accountingtools.com/articles/property-plant-and-equipment#:~:text=Classifications%20of%20Property%2C%20Plant%2C%20and%20Equipment&text=Examples%20of%20PP%26E%20classes%20are,using%20a%20common%20depreciation%20calculation.

The proposed asset classes are set out in the table below:

Table 6.1 – Proposed Asset Classes

Asset Classes
AC FILTERS
AC SWITCHYARD
AUXILIARY SYSTEMS
BUILDING INSTALLATION
CABLE
CONTROL SYSTEM
CONVERTER TRANSFORMER
DC FILTER
DC SWITCHYARD
EASEMENT
FREEHOLD LAND
IN-HOUSE SOFTWARE
MEASURING DEVICES
MOTOR VEHICLES
OTHER
OVERHEAD LINES
SMOOTHING REACTOR
STATION POWER SUPPLY
SWITCHYARD COMPONENTS
VALVE COOLING
VALVE HALL

6.4 Economic Life (Regulatory Asset Lives)

The Rules require the depreciation schedules for each asset or category of assets nominated in Basslink's Revenue Proposal specify the economic life of the asset classes.[64]

Economic life is not a defined term in the Rules. However it implies that the life of the asset should be the lesser of the commercial or technical life of the asset.

AASB 116 Property Plant and Equipment defines the asset life for accounting purposes as

[64] NER 6A.6.3(b)(2)

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

With the exception of where the Asset Management Policy of the Entity is to dispose of the asset after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset, both the regulatory and accounting standards require the same assessment. Basslink has no policies to dispose of assets after a specified time or when a specified portion of the economic value has been consumed.

This means that the asset lives in the Basslink fixed asset register are based on the economic life of the asset class. Therefore we are proposing to use, as a starting point, the accounting asset lives for the asset classes as contained in the fixed asset register.

Table 6.2 – Basslink Accounting Asset Lives

Asset Class	Accounting Asset Life
AC FILTERS	10
AC SWITCHYARD	40
AUXILIARY SYSTEMS	30
CABLE	40
CONTROL SYSTEM	20
CONVERTER TRANSFORMER	25
DC FILTER	10
DC SWITCHYARD	40
EASEMENT	n/a
FREEHOLD LAND	n/a
MEASURING DEVICES	10
MOTOR VEHICLES	5
OTHER	5
OVERHEAD LINES	40
SMOOTHING REACTOR	35
STATION POWER SUPPLY	13
SWITCHYARD COMPONENTS	40
VALVE COOLING	13
VALVE HALL	40

We have adjusted the asset life of the Overhead Lines asset class so that it better aligns with that of the other TNSPs (see below table). Basslink Pty Ltd is proposing the mid-point (55 years) of the regulated standard asset lives for overhead cables as part of its proposal.

Table 6.3 – TNSP comparison of asset lives

TNSP	Asset Class	Life
ElectraNet	Transmission lines - Overhead	55
Directlink	Transmission lines - Overhead	50
Transgrid	Transmission lines (2018-2023)	50
TasNetworks	Transmission Lines and Cables	60
Powerlink	Transmission Lines - Overhead	50
AusNet	Towers and Conductor	60

As noted in Section 6.3 above, we have also included the two asset classes identified by the AER as having different tax treatment for regulatory purposes. These are set out in the table below.

Table 6.4 – Basslink AER Asset Classes and Asset Lives

Asset Class	Asset Life
Building Installation	40
In house Software	5

Asset Lives

Basslink Pty Ltd is therefore proposing the following regulated standard asset lives.

Table 6.5 – Asset Classes and Asset lives

Asset Class	Accounting Asset Life
AC FILTERS	10
AC SWITCHYARD	40
AUXILIARY SYSTEMS	30
BUILDINGS	40
CABLE	40
CONTROL SYSTEM	20
CONVERTER TRANSFORMER	25
DC FILTER	10

Asset Class	Accounting Asset Life
DC SWITCHYARD	40
EASEMENT	n/a
FREEHOLD LAND	n/a
IN HOUSE SOFTWARE	5
MEASURING DEVICES	10
MOTOR VEHICLES	5
OTHER	5
OVERHEAD LINES	55
SMOOTHING REACTOR	35
STATION POWER SUPPLY	13
SWITCHYARD COMPONENTS	40
VALVE COOLING	13
VALVE HALL	40

6.5 Actual or Forecast Inflation

The Rules requires that a revenue determination for a TNSP must[65]

> *"specify whether depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period is to be based on actual or forecast capital expenditure."*

Basslink Pty Ltd proposes, that similar to other APA assets, the regulatory asset base for the following regulatory control period should be based on forecast capital expenditure.

6.6 Tax Asset Lives

We have set the Regulatory Tax Asset lives based on Public Taxation Ruling TR 2022/1. This public ruling is the Australian Taxation Office's.

We identified the most significant, by value, asset within each asset class. We then identified the relevant asset type in TR 2022/1 and assigned the taxation life to the asset class. This is set out in table 6.6 below.

[65] NER 6A.4.2(a1)

Table 6.6 – Taxation Class and Taxation life

Asset Class	Relevant Asset Type	Taxation life
AC FILTERS	Filters	15
AC SWITCHYARD	On site switchyards with conventional outdoor switchgear	40
AUXILIARY SYSTEMS	Station and auxiliary electrical systems within power stations	40
BUILDINGS	Power Station Buildings	40
CABLE	Customer Service mains or cable	40
CONTROL SYSTEM	Control and monitoring system	15
CONVERTER TRANSFORMER	General Transformers and unit transformers	25
DC FILTER	Filters	15
DC SWITCHYARD	On site switchyards with conventional outdoor switchgear	40
EASEMENT	n/a	n/a
FREEHOLD LAND	n/a	n/a
IN-HOUSE SOFTWARE	In-house software	5
MEASURING DEVICES	Measuring and monitoring devices	15
MOTOR VEHICLES	APA Group Tax Policy	8
OTHER	Other	15
OVERHEAD LINES	Customer service mains or cable above ground	40
SMOOTHING REACTOR	Reactor	25
STATION POWER SUPPLY	Station and auxiliary electrical systems within the power station	40
SWITCHYARD COMPONENTS	On site switchyards with conventional outdoor switchgear	40
VALVE COOLING	Piping and valves	15
VALVE HALL	Power station civil and Structural work	30