

# Draft Decision

**TasNetworks**

**Electricity Transmission**

**Determination 2024 to 2029**

**(1 July 2024 to 30 June 2029)**

**Attachment 4**

**Regulatory depreciation**

**September 2023**

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## 4 Regulatory depreciation

Regulatory depreciation is the amount provided so capital investors recover their investment over the economic life of the asset (return of capital). In deciding whether to approve the depreciation schedules submitted by TasNetworks, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for TasNetworks' 2024–29 regulatory control period.<sup>1</sup> The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

This attachment sets out our draft decision on the regulatory depreciation amount for TasNetworks' transmission network. It also presents our draft decision on the proposed depreciation schedules, including an assessment of the proposed standard asset lives used for calculating straight-line depreciation.

### 4.1 Draft decision

We determine a regulatory depreciation amount of \$113.2 million (\$ nominal) for TasNetworks for the 2024–29 period. TasNetworks proposed a regulatory depreciation amount of \$78.5 million (\$ nominal).<sup>2</sup> Our draft decision represents an increase of \$34.6 million (44.1%) on the proposed amount.

This increase is primarily the result of a lower RAB indexation in our draft decision compared to the proposal.<sup>3</sup> However, it is partially offset by our correction to the commencement date for the year-by-year tracking approach to 2014–15 instead of 2019–20 proposed by TasNetworks in the depreciation module.<sup>4</sup> Our draft decision to correct/update other inputs in the depreciation module<sup>5</sup> and update to the expected inflation rate for the 2024–29 period (Attachment 3), which affects the projected RAB over this period, have also impacted the regulatory depreciation amount.

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<sup>1</sup> Under cl. 6A.5.4 of the National Electricity Rules (NER), the annual building block revenue requirement for a Transmission Network Service Provider for each regulatory year of a regulatory control period must be determined using a building blocks approach, under which one of the building blocks is depreciation for that year. The depreciation for each regulatory year must be calculated in accordance with cl. 6A.6.3 of the NER.

<sup>2</sup> TasNetworks, *TasNetworks-Post Tax Revenue Model - Prescribed-Dec 22-Public*, January 2023.

<sup>3</sup> Expected inflation is used to calculate the RAB indexation. Since regulatory depreciation is calculated by subtracting RAB indexation from the straight-line depreciation, a lower RAB indexation increases the regulatory depreciation, all else being equal.

<sup>4</sup> This correction is required as the 2014–15 commencement date of the tracking approach for capex incurred after this date was approved in the 2019–24 transmission determination. This commencement date must be maintained in the depreciation module for the correct implementation of the tracking approach for the 2024–29 period. Our detailed assessment of this issue is set out in section 4.1.1.

AER, *TasNetworks transmission determination 2019–24, Attachment 4, April 2019*, p. 6.

AER, *TasNetworks 2019-24 – Transmission - Final decision - Depreciation Model - April 2019*.

<sup>5</sup> These corrections are the same as those made to the roll forward model (RFM) and must be reflected in the depreciation module. This includes correction to capex values, asset disposal values and actual inflation rate, adjustments for the difference and the return on that difference between the actual and forecast net capex for the final year (2018–19) of the previous 2014–19 period, other final year adjustments for the previous 2014–19 period, and the rate of return values. Our detailed assessment is set out in Attachment 2 of this draft decision.

The change to the commencement date for the year-by-year tracking approach and other corrections we made to the depreciation module reduces the forecast straight-line depreciation compared to the proposal for the 2024–29 period. The indexation of the RAB is lower than the proposal, largely due to applying a lower expected inflation rate of 2.80% per annum in this draft decision compared to TasNetworks’ proposal of 3.35% per annum. Overall, the lower RAB indexation increases regulatory depreciation (since indexation is deducted from straight-line depreciation) by \$66.6 million. However, the forecast straight-line depreciation is \$32.0 million lower than the proposal and has partially offset the impact of the RAB indexation to result in a \$34.6 million increase to regulatory depreciation.

For our draft decision on TasNetworks’ regulatory depreciation:

- We accept TasNetworks’ proposed straight-line depreciation method used to calculate the regulatory depreciation amount.
- We accept TasNetworks’ proposal to continue applying the year-by-year tracking approach to implement straight-line depreciation of its existing assets and its forecast capital expenditure (capex). However, we corrected the commencement date for the tracking approach to 2014–15 instead of the 2019–20 date proposed by TasNetworks to be consistent with the 2019–24 transmission determination. We also corrected a number of other inputs in the proposed depreciation module (section 4.4.1).
- We accept TasNetworks’ proposed asset classes and standard asset lives, with the exception of the standard asset life for the ‘Equity raising costs’ asset class (section 4.4.2).

We made determinations on other components of TasNetworks’ proposal which affect the forecast regulatory depreciation—for example, the opening RAB at 1 July 2024 (Attachment 2), expected inflation (Attachment 3), and forecast capex (Attachment 5) including its effect on the projected RAB over the 2024–29 period.<sup>6</sup>

Table 4.1 sets out our draft decision on the annual regulatory depreciation amount for TasNetworks’ for the 2024–29 period.

**Table 4.1 AER’s draft decision on TasNetworks’ forecast depreciation for the 2024–29 period (\$million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Straight-line depreciation	70.3	69.1	73.8	72.0	72.2	357.4
Less: inflation indexation on opening RAB	46.6	47.5	48.9	50.0	51.2	244.3
<b>Regulatory depreciation</b>	<b>23.7</b>	<b>21.7</b>	<b>24.8</b>	<b>22.0</b>	<b>20.9</b>	<b>113.2</b>

Source: AER analysis.

<sup>6</sup> Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year weighted average cost of capital (WACC) to account for the timing assumptions in the PTRM. Our draft decision on the RAB (Attachment 2) also reflects our updates to the WACC for the 2024–29 period.

## 4.2 TasNetworks' proposal

For the 2024–29 period, TasNetworks proposed a total forecast regulatory depreciation amount of \$78.5 million (\$ nominal). To calculate the depreciation amount, TasNetworks proposed to use:<sup>7</sup>

- the straight-line depreciation method employed in the AER's post-tax revenue model (PTRM)
- the closing RAB value at 30 June 2024 derived from the AER's roll forward model (RFM)
- the forecast capex for the 2024–29 period proposed by TasNetworks
- an expected inflation rate of 3.35% per annum for the 2024–29 period
- the AER's year-by-year tracking depreciation module in the RFM, which implements the straight-line method to calculate the forecast depreciation (over the 2024–29 period) of the opening RAB at 1 July 2024, with a commencement date of 2019–20 for the tracking approach
- with the exception of the 'Equity raising costs' asset class, TasNetworks proposed the same asset classes and standard asset lives for depreciating its forecast capex for the 2024–29 period as those approved in the 2019–24 transmission determination. TasNetworks proposed a standard asset life of 27.7 years for the 'Equity raising costs' asset class.

Table 4.2 sets out TasNetworks' proposed regulatory depreciation amount for the 2024–29 period.

**Table 4.2 TasNetworks' proposed regulatory depreciation for the 2024–29 period (\$million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Straight-line depreciation	73.0	73.7	77.8	80.5	84.3	389.4
Less: inflation indexation on opening RAB	58.9	60.2	62.2	63.9	65.6	310.9
<b>Regulatory depreciation</b>	<b>14.2</b>	<b>13.5</b>	<b>15.6</b>	<b>16.6</b>	<b>18.7</b>	<b>78.5</b>

Source: TasNetworks, *TasNetworks-Post Tax Revenue Model – Prescribed-Dec 22-Public*, January 2023.

## 4.3 Assessment approach

We must determine the regulatory depreciation amount as part of determining a transmission network service provider's (TNSP's) annual building block revenue requirement.<sup>8</sup> The calculation of depreciation for each regulatory year is governed by the value of assets

<sup>7</sup> TasNetworks, *TasNetworks-Roll Forward Model - Prescribed-Dec 22-Public*, January 2023.

TasNetworks, *TasNetworks-Depreciation Model - Prescribed-Dec 22-Public*, January 2023.

TasNetworks, *TasNetworks-Post Tax Revenue Model - Prescribed-Dec 22-Public*, January 2023.

<sup>8</sup> NER, cl. 6A.5.4(a)(3) and 6A.5.4(b)(3).

included in the RAB as at the beginning of the regulatory year, and by the depreciation schedules.<sup>9</sup>

### 4.3.1 Approach to determining depreciation

Our standard approach to calculating depreciation is to employ the straight-line method set out in the PTRM. Regulatory practice has been to assign a standard asset life to each asset or category of assets that represents the economic or technical life of the asset or asset class.<sup>10</sup> We must consider whether the proposed depreciation schedules conform to the following key requirements:

- the schedules 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<sup>11</sup> (apart from in certain specified circumstances)<sup>12</sup>
- the sum of the real value of the depreciation that is attributable to any asset or category of assets over the economic life of that asset or category of assets must be equivalent to the value at which that asset or category of assets was first included in the RAB for the relevant transmission system.<sup>13</sup>

To the extent that the depreciation schedules nominated in a TNSP's revenue proposal do not comply with the above requirements, we must determine the depreciation schedules for calculating the depreciation for each regulatory year.<sup>14</sup>

The regulatory depreciation amount is an output of the PTRM. We therefore assessed TasNetworks' proposed regulatory depreciation amount by analysing the proposed inputs to the PTRM for calculating that amount. The key inputs include:

- the opening RAB at 1 July 2024
- the forecast net capex in the 2024–29 period<sup>15</sup>
- the expected inflation rate for the above period
- the standard asset life for each asset class—used for calculating the depreciation of new assets associated with forecast net capex in the above period

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<sup>9</sup> NER, cl. 6A.6.3(a)

<sup>10</sup> This is the standard practice for the AER, as well as other jurisdictional regulators. See for example, IPART, *Cost building block model template*, 20 June 2014, Table 1; ERAWA, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network*, September 2012, Appendix 2: Target Revenue Calculation (Revenue Model).

AER, *Final decision: Electricity transmission network service providers – Post-tax revenue model handbook*, April 2021, p. 15.

AER, *Draft decision: AusNet Services transmission determination 2017-18 to 2021-22, Attachment 5 – Regulatory depreciation*, July 2016, p. 37.

<sup>11</sup> NER, cl. 6A.6.3(b)(1).

<sup>12</sup> NER, cll. 6A.6.3(b)(1) and 6A.6.3(c).

<sup>13</sup> NER, cl. 6A.6.3(b)(2).

<sup>14</sup> NER, cl. 6A.6.3(a)(2)(ii).

<sup>15</sup> Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and is adjusted for half-year WACC to account for the timing assumptions in the PTRM. Our draft decision on the RAB (Attachment 2) also reflects our updates to the WACC for the 2024–29 period.

- the depreciation of existing assets in the opening RAB as at 1 July 2024—calculated in a separate year-by-year tracking depreciation module.

Our draft decision on TasNetworks’ regulatory depreciation amount reflects our determinations on the opening RAB as at 1 July 2024, expected inflation rate and forecast capex (the first three building block components in the above list).<sup>16</sup> Our determinations on these components of TasNetworks’ proposal are discussed in Attachments 2, 3 and 5 respectively.

In this attachment, we assess TasNetworks’ proposed standard asset lives against:

- the approved standard asset lives in the transmission determination for the 2019–24 period
- the standard asset lives of comparable asset classes approved in our recent transmission determinations for other service providers
- the appropriate economic lives of the assets.

Our regulatory models (RFM and PTRM) provide for two approaches for calculating the straight-line depreciation of existing assets:

- The ‘weighted average remaining lives’ (WARL) approach: This approach calculates the remaining asset life for an asset class by weighting together its remaining asset life at the beginning of the regulatory control period with the new capex added to the asset class during that period. The residual asset values are used as weights to calculate the remaining asset life at the end of that period. The WARL for the asset classes are calculated in our RFM and are inputs to the PTRM. We consider this approach meets the requirements for determining depreciation under the National Electricity Rules (NER).
- The ‘year-by-year tracking’ approach: Under this approach, the capex (in addition to grouping assets by type via asset classes) for each year of the regulatory control period is depreciated separately and tracked on a year-by-year basis over the assigned standard life for the asset class. This approach does not require the assessment of the remaining asset life at each five-yearly regulatory determination. We consider this approach also meets the requirements for determining depreciation under the NER. Our depreciation tracking module in the RFM conducts the detailed calculations required under this approach. The output of this module is then recorded in the PTRM.

TasNetworks has proposed to continue to apply the year-by-year tracking approach, approved in the 2019–24 transmission determination<sup>17</sup> to calculate the straight-line depreciation of its opening RAB as at 1 July 2024.<sup>18</sup> Our assessment of TasNetworks’ proposed implementation of the year-by-year tracking approach is discussed in section 4.4.1.

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<sup>16</sup> Our final decision will update the opening RAB as at 1 July 2024 for revised estimates of actual capex and inflation.

<sup>17</sup> AER, *TasNetworks transmission determination 2019–24, Attachment 4, April 2019*, p. 6.

AER, *TasNetworks 2019-24 - Transmission - Final decision - Depreciation Model - April 2019*.

<sup>18</sup> TasNetworks, *TasNetworks-Roll Forward Model - Prescribed-Dec 22-Public*, January 2023. TasNetworks, *TasNetworks-Depreciation Model - Prescribed-Dec 22-Public*, January 2023. TasNetworks, *TasNetworks-Post Tax Revenue Model - Prescribed-Dec 22-Public*, January 2023.



### 4.3.2 Interrelationships

The regulatory depreciation amount is a building block component of the annual building block revenue requirement.<sup>19</sup> Higher (or quicker) depreciation leads to higher revenues over the regulatory control period. It also causes the RAB to reduce more quickly (excluding the impact of further capex). This reduces the return on capital amount, although this impact is usually smaller than the increased depreciation amount in the short to medium term.<sup>20</sup>

Ultimately, however, a TNSP can only recover the capex that it incurs on assets once. The depreciation amount reflects how quickly the RAB is being recovered, and it is based on the asset lives used in the depreciation calculation. It also depends on the level of the opening RAB and the forecast capex. Any increase in these factors also increases the depreciation amount.

The RAB has to be maintained in real terms, meaning the RAB must be indexed for expected inflation.<sup>21</sup> The return on capital building block has to be calculated using a nominal rate of return applied to the opening RAB.<sup>22</sup> As noted in Attachment 1, the total annual building block revenue requirement is calculated by adding up the return on capital, depreciation, operating expenditure (opex), tax and revenue adjustments building blocks. Because inflation on the RAB is accounted for in both the return on capital—based on a nominal rate—and the depreciation calculations—based on an indexed RAB—an adjustment must be made to the revenue requirement to prevent compensating twice for inflation.

To avoid this double compensation, we make an adjustment by subtracting the annual indexation gain on the RAB from the calculation of total revenue. Our standard approach is to subtract the indexation of the opening RAB—the opening RAB multiplied by the expected inflation for the year—from the RAB depreciation. The net result of this calculation is referred to as regulatory depreciation.<sup>23</sup> Regulatory depreciation is the amount used in the building block calculation of total revenue to ensure that the revenue equation is consistent with the use of a RAB, which is indexed for inflation annually. Figure 4.1 shows where the inflation components are included in the building block costs.

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<sup>19</sup> The PTRM distinguishes between straight-line depreciation and regulatory depreciation, where regulatory depreciation is the straight-line depreciation less the indexation adjustment.

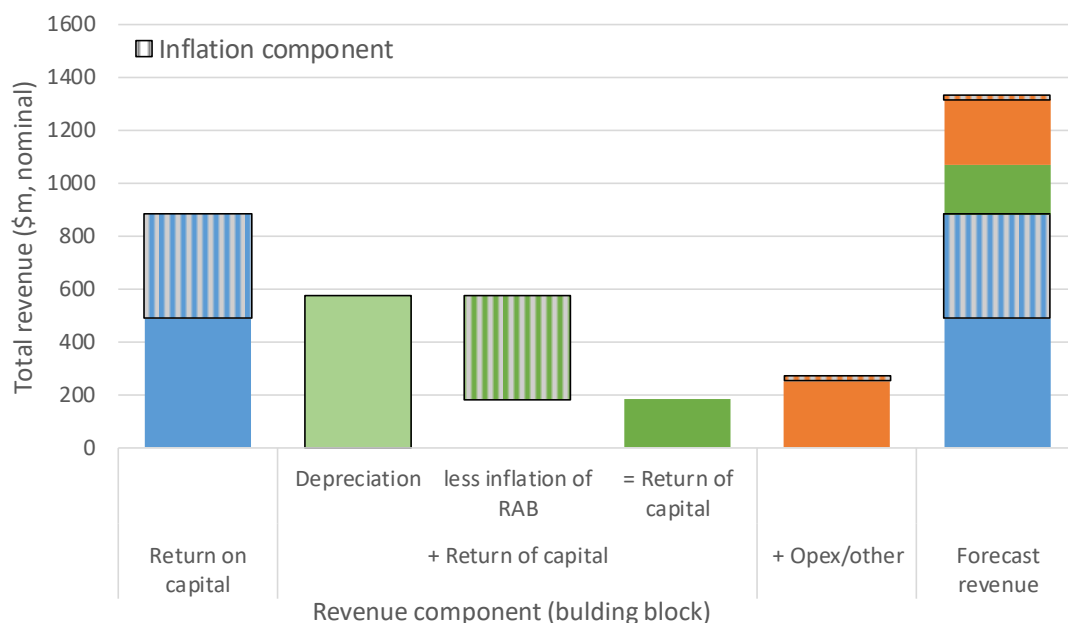
<sup>20</sup> This is generally the case because the reduction in the RAB amount feeds into the higher depreciation building block, whereas the reduced return on capital building block is proportionate to the lower RAB multiplied by the WACC.

<sup>21</sup> NER, cl. 6A.2.4(c)(4).

<sup>22</sup> AER, *Rate of return instrument*, cl. 1, 3, 36(c), February 2023.

<sup>23</sup> If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the straight-line depreciation in such circumstances.

**Figure 4.1 Inflation components in revenue building block – example**



Source: AER analysis.

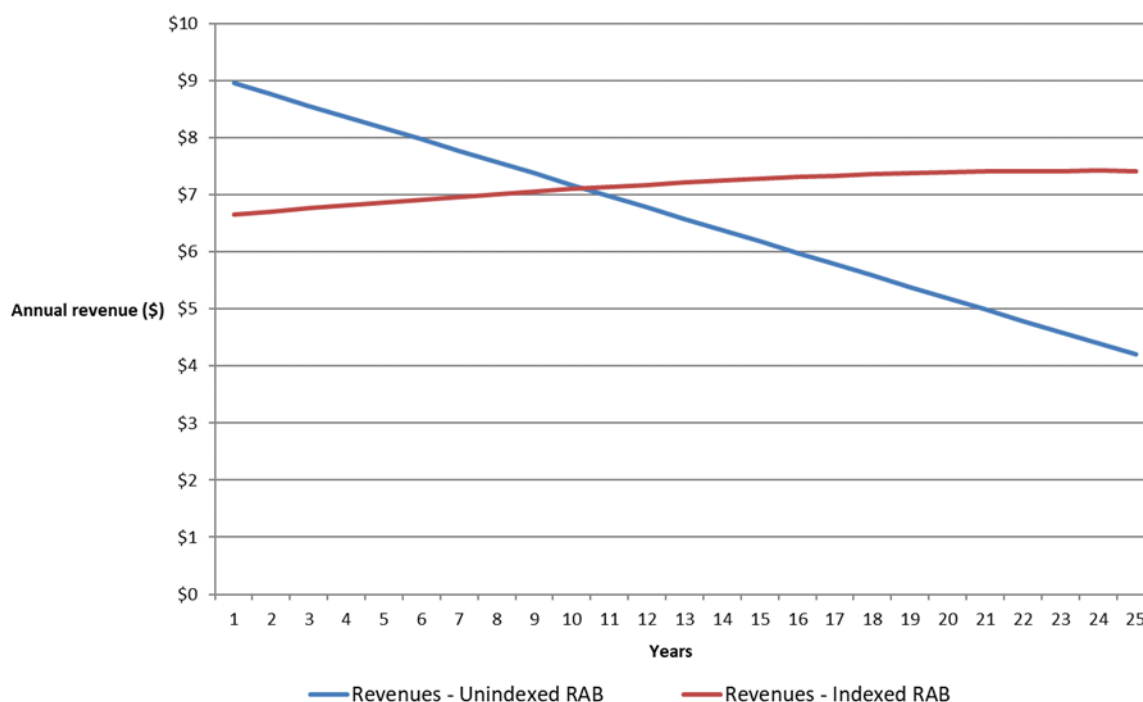
This approach produces the same total revenue requirement and RAB as if a real rate of return had been used in combination with an indexed RAB. Under an alternative approach where a nominal rate of return was used in combination with an un-indexed (historical cost) RAB, no adjustment to the depreciation calculation of total revenue would be required. This alternative approach produces a different time path of total revenue compared to our standard approach. In particular, overall revenues would be higher early in the asset’s life (as a result of more depreciation being returned to the TNSP) and lower in the future—producing a steeper downward sloping profile of total revenue.<sup>24</sup> Under both approaches, the total revenues being recovered are in present value neutral terms—that is, returning the initial cost of the RAB.

Figure 4.2 shows the recovery of revenue under both approaches using a simplified example.<sup>25</sup> Indexation of the RAB and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. The indexation of the RAB also reduces prices shocks when the asset is replaced at the end of its life.<sup>26</sup>

<sup>24</sup> A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve net present value (NPV) neutrality.

<sup>25</sup> The example is based on the initial cost of an asset of \$100, a standard economic life of 25 years, a real WACC of 2.5%, expected inflation of 2.4% and nominal WACC of 4.96%. Other building block components such as opex, tax and capex are ignored for simplicity as they would affect both approaches equally.

<sup>26</sup> In year 26, the revenues in the example for the un-indexed approach would jump from about \$4 to \$9, assuming the asset is replaced by an asset of roughly similar replacement cost as the initial asset. In contrast, in the same circumstances, the indexed approach would see revenues stay at roughly \$7.

**Figure 4.2 Revenue path example – indexed vs un-indexed RAB (\$ nominal)**

Source: AER analysis.

Figure 2.1 (in Attachment 2) shows the relative size of the inflation and straight-line depreciation, and their impact on the RAB based on TasNetworks' proposal. A 10% increase in the straight-line depreciation causes unsmoothed revenues (\$ nominal) to increase by about 5.1%.<sup>27</sup>

## 4.4 Reasons for draft decision

We accept TasNetworks' proposed straight-line depreciation method for calculating the regulatory depreciation amount as set out in the PTRM. However, we increased TasNetworks' proposed forecast regulatory depreciation amount for the 2024–29 period by \$34.6 million (44.1%) to \$113.2 million (\$ nominal).

This increase is primarily the result of a lower RAB indexation in our draft decision compared to the proposal. This is because our draft decision applies a lower expected inflation rate of 2.80% per annum compared to TasNetworks' proposal of 3.35% per annum.<sup>28</sup> This increase is partially offset by our correction to the commencement date for the year-by-year tracking approach to 2014–15 instead of 2019–20 proposed by TasNetworks in the depreciation

<sup>27</sup> We have analysed the sensitivity of straight-line depreciation relative to total revenue based on input data provided in TasNetworks' proposal PTRM.

<sup>28</sup> Expected inflation is used to calculate the RAB indexation. Since regulatory depreciation is calculated by subtracting RAB indexation from the straight-line depreciation, a lower RAB indexation increases the regulatory depreciation, all else being equal.

module.<sup>29</sup> Our draft decision to correct/update other inputs in the depreciation module and our update to the expected inflation rate for the 2024–29 period (Attachment 3), which affects the projected RAB over this period, have also impacted the regulatory depreciation amount.

Our assessment of TasNetworks' proposal to continue using the year-by-year tracking depreciation approach and its proposed standard asset lives are discussed in the following subsections.

#### 4.4.1 Year-by-year tracking approach

TasNetworks proposed to continue using the year-by-year tracking approach for calculating the depreciation of its existing assets, consistent with that approved for the previous regulatory control period.<sup>30</sup>

For our draft decision, we accept TasNetworks' proposed year-by-year tracking approach meets the requirements of the NER in that it will result in depreciation schedules that:<sup>31</sup>

- reflect the nature of the assets and their economic life
- ensure that total depreciation (in real terms) equals the initial value of the assets
- allow the economic lives of existing assets to be consistent with those determined on a prospective basis in our 2019–24 transmission determination.

TasNetworks used our depreciation module in the RFM to implement year-by-year tracking. We have reviewed TasNetworks' application of this module and consider a correction is required for the commencement date of the year-by-year tracking approach to 2014–15 instead of 2019–20 proposed by TasNetworks. This corrected commencement date of the tracking approach is consistent with that approved in the 2019–24 transmission determination. Under the tracking approach, the commencement date of 2014–15 must be maintained in the depreciation module for the correct implementation to calculating straight-line depreciation going forward.<sup>32</sup> In its response to our information request, TasNetworks agreed with our correction to the commencement date.<sup>33</sup>

We also updated the following inputs to the depreciation module to be consistent with corrections and updates made to the RFM:

- the consumer price index (CPI) for 2021–22 to reflect the actual value published by the Australian Bureau of Statistics (ABS) and the nominal vanilla weighted average cost of

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<sup>29</sup> This correction is required as the 2014–15 commencement date of the tracking approach for capex incurred after this date was approved in the 2019–24 transmission determination. This commencement date must be maintained in the depreciation module for the correct implementation of the tracking approach for the 2024–29 period. Our detailed assessment of this issue is set out in section 4.1.1.

AER, *TasNetworks transmission determination 2019–24, Attachment 4, April 2019*, p. 6.

AER, *TasNetworks 2019-24 – Transmission - Final decision - Depreciation Model - April 2019*.

<sup>30</sup> TasNetworks, *TasNetworks-Post Tax Revenue Model - Prescribed-Dec 22-Public*, January 2023.

<sup>31</sup> NER, cl. 6A.6.3(b).

<sup>32</sup> AER, *TasNetworks transmission determination 2019–24, Attachment 4, April 2019*, p. 6.

AER, *TasNetworks 2019-24 - Transmission - Final decision - Depreciation Model - April 2019*.

<sup>33</sup> TasNetworks, *Response to AER IR#029*, 11 May 2023.

capital (WACC) for 2017–23 to reflect the approved values set out in the 2023–24 return on debt update in the PTRM for the 2019–24 period

- the 2019–20 actual capex values<sup>34</sup> and 2018–24 asset disposal values<sup>35</sup> to be consistent with data provided to us by TasNetworks in the annual regulatory accounts
- the actual CPI for 2022–23 with the 2022 December quarter CPI published by the ABS, which became available after TasNetworks submitted its proposal. The estimated CPI for 2023–24 has also been updated with the latest forecast inflation published in the Reserve Bank of Australia’s August *Statement on Monetary Policy*
- the nominal vanilla WACC for 2023–24 to reflect the 2023–24 return on debt update in the PTRM for the 2019–24 period, which became available after TasNetworks submitted its proposal.

While most of the updates we made have a relatively moderate impact on the forecast straight-line depreciation, the correction for the commencement date of the year-by-year tracking approach has materially reduced the forecast straight-line depreciation by around \$23 million. This is because the later commencement of 2019–20 for the tracking approach proposed by TasNetworks resulted in an understatement of depreciation in the 2019–24 period for capex incurred from 2014–15 to 2018–19. This means the proposed depreciation module incorrectly deducted less depreciation from the RAB over the 2019–24 period and this resulted in a higher forecast straight-line depreciation for the 2024–29 period. Our correction to the commencement date of 2014–15 removed this understatement of the depreciation for the 2019–24 period. As a result, there is a lower forecast straight-line depreciation for the 2024–29 period compared to the proposal.

#### 4.4.2 Standard asset lives

We accept TasNetworks’ proposed standard asset lives, with the exception of the ‘Equity raising costs’ asset class. We have calculated the standard asset life of equity raising costs by taking the weighted average of the standard asset lives of total forecast capex for each asset class over the 2024–29 period.

TasNetworks proposed the same standard asset lives for its existing asset classes in respect of the forecast capex to be incurred in the 2024–29 period, except for the ‘Equity raising costs’ asset class. We accept the unchanged asset lives as they are consistent with those approved for the 2019–24 period and are largely comparable with the standard asset lives used by other network businesses for similar asset classes.

The standard asset life for the ‘Equity raising costs’ asset class needs to be reviewed each regulatory control period. We consider the standard asset life for this asset class should reflect the lives of the mix of assets making up the approved forecast net capex, because the equity raising cost benchmark is associated with that forecast.<sup>36</sup> However, no equity raising cost have been determined in our draft decision modelling. This is because TasNetworks does not satisfy the requirements to incur benchmark equity raising costs associated with the

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<sup>34</sup> For as-commissioned capex only.

<sup>35</sup> For both as-incurred and as-commissioned capex.

<sup>36</sup> For this reason, we used forecast net capex as the weights to establish the weighted average standard asset life for amortising equity raising costs.

approved forecast capex. Accordingly, we have decided to record the standard asset life for the ‘Equity raising costs’ asset class as not applicable in the PTRM for this draft decision.

Table 4.3 sets out our draft decision on TasNetworks’ standard asset lives for the 2024–29 period. We are satisfied that:<sup>37</sup>

- the standard asset lives and depreciation approach more broadly would lead to a depreciation schedule that reflects the nature of the assets over the economic lives of the asset classes, and
- the sum of the real value of the depreciation attributable to the assets is equivalent to the value at which the assets were first included in the RAB for TasNetworks.

**Table 4.3 AER’s draft decision on TasNetworks’ standard asset lives as at 1 July 2024 (years)**

Asset class	Standard asset life
Transmission line assets - long life (60)	60.0
Transmission line assets - medium life (45)	45.0
Transmission line assets - short life (10)	10.0
Substation assets - long life (60)	60.0
Substation assets - medium life (45)	45.0
Substation assets - short life (15)	15.0
Protection and control - short life (15)	15.0
Protection and control - short life (4)	4.0
Transmission operations - short life (10)	10.0
Transmission operations - short life (4)	4.0
Other - medium life (40)	40.0
Other - short life (9)	9.0
Other - short life (4)	4.0
Land and easements <sup>a</sup>	n/a
Communication assets - long life (45)	45.0
Communication assets - medium life (10)	10.0
Communication assets - short life (5)	5.0
Buildings	40.0
Equity raising costs <sup>b</sup>	n/a

<sup>37</sup> NER, cl. 6A.6.3(b)(1)–(2).

Source: AER analysis.

n/a not applicable.

- (a) We have not assigned a standard asset life to the 'Land and easements' asset class because the capex allocated to it are not subject to depreciation.
- (b) For this draft decision, the forecast capex determined for TasNetworks does not meet a level to trigger any benchmark equity raising costs and is therefore not assigned a standard asset life.

## Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CPI	consumer price index
NPV	net present value
NER	National Electricity Rules
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
WACC	weighted average cost of capital
WARL	weighted average remaining lives

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