Attachment 4 - Regulatory Depreciation

2025–30 Regulatory Proposal

January 2024

SA Power Networks

Company information

SA Power Networks is the registered Distribution Network Service Provider for South Australia. For information about SA Power Networks visit sapowernetworks.com.au

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Disclaimer

This document forms part of SA Power Networks' Regulatory Proposal to the Australian Energy Regulator for the 1 July 2025 to 30 June 2030 regulatory control period. The Proposal and its attachments were prepared solely for the current regulatory process and are current as at the time of lodgement.

This document contains certain predictions, estimates and statements that reflect various assumptions concerning, amongst other things, economic growth and load growth forecasts. The Proposal includes documents and data that are part of SA Power Networks' normal business processes and are therefore subject to ongoing change and development.

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Note

This attachment forms part of our Proposal for the 2025–30 Regulatory Control Period. It should be read in conjunction with the other parts of the Proposal.

Our Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 20:

Document	Description
	Regulatory Proposal overview
Attachment 0	Customer and stakeholder engagement program
Attachment 1	Annual revenue requirement and control mechanism
Attachment 2	Regulatory Asset Base
Attachment 3	Rate of Return
Attachment 4	**Regulatory Depreciation**
Attachment 5	Capital expenditure
Attachment 6	Operating expenditure
Attachment 7	Corporate income tax
Attachment 8	Efficiency Benefit Sharing Scheme
Attachment 9	Capital Expenditure Sharing Scheme
Attachment 10	Service Target Performance Incentive Scheme
Attachment 11	Customer Service Incentive Scheme
Attachment 12	Demand management incentives and allowance
Attachment 13	Classification of services
Attachment 14	Pass through events
Attachment 15	Alternative Control Services
Attachment 16	Negotiated services framework and criteria
Attachment 17	Connection Policy
Attachment 18	Tariff Structure Statement Part A
Attachment 18	Tariff Structure Statement Part B - Explanatory Statement
Attachment 19	Legacy Metering
Attachment 20	List of Proposal documentation

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1   Overview

Depreciation is the allowance provided so capital investors recover their investment over the economic life of the asset (i.e. the return of capital). The regulatory depreciation allowance is the net total of the depreciation (negative) and the indexation (positive) of the regulatory asset base (**RAB**).

The regulatory depreciation allowance reflects how quickly the RAB is being recovered, based on the remaining and standard asset lives used in the depreciation calculation. It also depends on the opening RAB and the forecast capital expenditure (**capex**). Any increase to these factors also increases the regulatory depreciation allowance. However, a distribution network service provider (**DNSP**) can only recover the capex that it incurs for its assets once.

2   Rule requirements

Clause 6.4.3 of the National Electricity Rules (**NER**) provides that the annual revenue requirement for each regulatory year of the relevant regulatory control period (**RCP**) must be determined using a building block approach. This approach includes a component for depreciation for that regulatory year calculated pursuant to clause 6.5.5 of the NER.

In addition, clause S6.1.3(12) of the NER requires the depreciation schedules nominated by the DNSP to be categorised by asset class or category driver. The schedules must detail the amounts, values and other inputs required to compile the depreciation schedules. It must also be demonstrated that the depreciation schedules conform with the requirements set out in clause 6.5.5(b) of the NER and an explanation is provided of the calculation of the amounts, values and other inputs used to compile the depreciation schedules.

3   Regulatory depreciation methodology

The NER provide general guidance for the determination of regulatory depreciation. A specific depreciation methodology is not provided in the NER. If the depreciation schedules nominated by a DNSP satisfy the requirements in the NER, they must be used in calculating regulatory depreciation allowances, even if the Australian Energy Regulator (**AER**) has a preferred method for determining depreciation schedules.

In its distribution determination for SA Power Networks for the 2020–25 RCP (**2020 Determination**), the AER accepted our proposal to use:[1]

- the straight-line method for depreciating new assets according to standard asset lives for each asset class; and

- the year-by-year tracking method for depreciating existing assets.

We propose to continue to apply these methods in the 2025–30 RCP.

The year-by-year tracking method for depreciating existing assets captures the timing of new additions for each asset class in the relevant regulatory year, which provides more granular and accurate information on the remaining economic asset lives. These calculations are made in a separate depreciation model, and the depreciation amounts are input into the Post-Tax Revenue Model (**PTRM**).

Both the PTRM and Depreciation model are supplied as supporting documents to this Regulatory Proposal for the 2025–30 RCP (**Proposal**).[2]

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[1]   AER, *Final decision – SA Power Networks determination 2020-25, Attachment 4 – Regulatory depreciation*, June 2020, p 4-4.

[2]   Refer **Supporting Document 1.1 - Post Tax Revenue Model** and **Supporting Document 4.1 - RAB Depreciation Model**.

4 Standard asset classes and lives

The NER states that depreciation must be based on the economic life of the assets or category of assets[3]. This allows the DNSP to have its capital returned at a rate which is consistent with the decline in economic value of the assets.

The economic life of an asset is the estimated period that the asset will be able to be used in its current, or intended, function in the business.

SA Power Networks proposes to apply the same standard asset lives for the 2025–30 RCP as applied in the 2020–25 RCP. There have been no other factors identified that would suggest that the expected life of the other assets utilised by SA Power Networks has changed materially since the 2020 Determination.

Table 1 provides the standard asset lives for each asset class.

Table 1: Standard asset lives (years)

Asset Class	Standard Asset Life
System assets:	
Sub-transmission lines	55
Distribution lines	55
Sub-transmission and distribution lines – short life	25
Distribution transformers	45
Substations	45
Substations and transformers – short life	20
Low Voltage Supply	55
Communications	15
Electronic network assets	15
Land[4]	N/A
Easements[4]	N/A
Customer Contributions[5]	N/A
Non-system assets:	
Information systems	5
Plant and tools / Furniture & fittings	10
Vehicles—15 Years	15
Vehicles—10 Years	10
Vehicles—light fleet	5
Buildings	40
Land	N/A
Equity Raising Costs	52.3
Legacy Metering[6]	
Metering	15
Equity Raising Cost – Metering	15
Alternative Control Services	
Public Lighting	28
Equity Raising Cost – Public Lighting	28

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[3] NER 6.5.5(b)(1).

[4] These assets are not depreciated and therefore do not have standard asset lives.

[5] From 1 July 2015, new customer contributions are allocated against the asset class to which they relate, so there is no need for a standard asset life for this asset class. The existing balance of the 'Customer Contributions' asset class is depreciated under the year-by-year tracking approach.

[6] Metering will be reclassified from Alternative Control to Standard Control from 2025. From 1 July 2025 the metering asset base value will be zero as all legacy metering assets will be fully depreciated.

5   Forecast regulatory depreciation for the 2025–30 RCP

SA Power Networks has prepared its depreciation forecast for the 2025–30 RCP, applying forecast asset additions, forecast asset disposals and the standard asset lives listed in Table 1. The opening asset balances were determined using the AER's Roll Forward Model. The AER's PTRM has been used to calculate the forecast depreciation on a straight line basis for forecast capex consistent with the requirements in clauses 6.5.5 and S6.1.3 of the NER. A separate depreciation model has been used to calculate depreciation on a straight line basis for existing assets as at 30 June 2025 using the year-by-year tracking approach.

The total of the resulting regulatory depreciation allowance is shown in Table 2[7].

Table 2: Forecast regulatory straight-line depreciation for the 2025–30 RCP ($ million, nominal)

	2025/26	2026/27	2027/28	2028/29	2029/30	2025–30 RCP
Straight Line Depreciation	410.0	420.3	421.6	372.0	380.2	2,004.1
Less: inflation indexation on opening RAB	130.6	135.7	141.4	147.7	155.3	710.7
Regulatory Depreciation – Standard Control Services	**279.5**	**284.6**	**280.2**	**224.2**	**224.9**	**1,293.3**

6   Tax depreciation for the 2020–25 and 2025–30 RCPs

For the purposes of calculating the estimated cost of corporate income tax pursuant to clause 6.5.4 of the NER, SA Power Networks is required to calculate tax depreciation. Different asset lives apply for taxation purposes under Australian tax law.

The AER's PTRM has historically been used to calculate the tax depreciation, using applicable tax depreciation rates. Since the 2020 Determination the PTRM provides for:

- the AER's approach to immediate expensing of refurbishment capex when determining the estimated cost of corporate income tax; and

- the AER's benchmark diminishing value depreciation approach for all new assets / capex with the exception of assets qualified under section 40.72 of the Income Tax Assessment Act 1997 (Cth).

We have had regard to, and applied, the same methodology as in the 2020 Determination, when determining our proposed tax depreciation in this Proposal.

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[7]   Numbers in Table may not add due to rounding.

Glossary

Acronym / term	Definition
AER	Australian Energy Regulator
Capex	Capital expenditure
DNSP	Distribution network service provider
NER	National Electricity Rules
Proposal	Regulatory Proposal 2025–30
PTRM	Post-Tax Revenue Model
RAB	Regulatory Asset Base
RCP	Regulatory Control Period
2020 Determination	2020–25 Regulatory Control Period