

Final Decision

TasNetworks

Electricity Transmission

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 4

Regulatory depreciation

April 2024

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List of attachments

This attachment forms part of the AER's final decision on the transmission determination that will apply to TasNetworks for the 2024–29 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 7 – Corporate income tax

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4 Regulatory depreciation

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 (period).¹ The regulatory depreciation amount is the net total of the straight-line depreciation less the inflation indexation adjustment of the RAB.

This attachment sets out our final decision on the regulatory depreciation amount for TasNetworks' transmission network, including the standard asset lives used for forecasting depreciation.

4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$120.4 million (\$ nominal) for TasNetworks for the 2024–29 period. This amount represents an increase of \$11.5 million (10.5%) to the \$108.9 million (\$ nominal) in TasNetworks' revised proposal.² It is \$7.2 million (6.4%) higher than the regulatory depreciation amount determined in our draft decision. This increase compared to our draft decision is primarily driven by a lower RAB indexation amount.³

The regulatory depreciation amount is the net total of the straight-line depreciation, less the inflation indexation of the RAB. The straight-line depreciation is impacted by our decision on TasNetworks' opening RAB as at 1 July 2024 (Attachment 2), forecast capital expenditure (capex) (Attachment 5) and asset lives. Our final decision straight-line depreciation for TasNetworks is \$1.8 million (\$ nominal) lower than its revised proposal.⁴

The indexation on the RAB is impacted by our decision on TasNetworks' opening RAB (Attachment 2), forecast capex (Attachment 5) and the expected inflation rate (section 2.2 of the Overview). Our final decision indexation on TasNetworks' forecast RAB is \$13.2 million lower than its revised proposal. This is largely due to applying a lower expected inflation rate of 2.66% per annum for this final decision compared with the 2.80% per annum that TasNetworks applied in its revised proposal. The lower indexation has more than offset the decrease in straight-line depreciation (since indexation is deducted from the straight-line depreciation), which has resulted in a higher regulatory depreciation amount compared to the revised proposal.

¹ NER, cl. 6A.5.4(a)(1) and (3).

² TasNetworks, *Revised regulatory proposal – Transmission – PTRM*, November 2023.

³ This is due to a lower expected inflation for the 2024–29 period compared to the draft decision.

⁴ This is mainly due to the lower expected inflation applied in our final decision which is used to convert the straight-line depreciation amount from real terms into nominal terms. In real terms, our final decision straight-line depreciation amount is slightly lower compared to the revised proposal driven by a slight decrease to the opening RAB value as at 1 July 2024 for TasNetworks in our final decision.

In coming to this final decision on TasNetworks’ straight-line depreciation, we accept the revised proposal with respect to the following matters, each of which is consistent with our draft decision:

- the straight-line method to calculate the regulatory depreciation as set out in our post-tax revenue model (PTRM)
- asset classes and standard asset lives (section 4.1.1)
- the continuation of applying the year-by-year tracking approach to implement straight-line depreciation of TasNetworks’ existing assets:
 - TasNetworks’ revised proposal adopted all our draft decision modelling input changes in the year-by-year tracking depreciation module used for implementing straight-line depreciation.⁵ Our final decision also makes standard input updates to the depreciation module, consistent with our roll forward model (RFM) amendments to the RAB as discussed in Attachment 2.

Table 4.1 sets out our final decision on the forecast regulatory depreciation amount for TasNetworks over the 2024–29 period.

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

| | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | Total |
|---|-------------|-------------|-------------|-------------|-------------|--------------|
| Straight-line depreciation | 69.6 | 68.2 | 72.7 | 70.4 | 71.4 | 352.3 |
| Less: inflation indexation on opening RAB | 44.3 | 45.1 | 46.4 | 47.4 | 48.6 | 231.9 |
| Regulatory depreciation | 25.2 | 23.1 | 26.3 | 22.9 | 22.8 | 120.4 |

Source: AER analysis.

4.1.1 Standard asset lives

For this final decision, we accept TasNetworks’ revised proposed standard asset lives in respect of the forecast capex for the 2024–29 period because they are consistent with our draft decision.

In our draft decision, we accepted TasNetworks’ proposed existing asset classes and standard asset lives, except for the ‘Equity raising costs’ asset class. We assigned a standard asset life of ‘n/a’ to ‘Equity raising costs’ asset class on the basis that forecast capex determined for TasNetworks did not meet a level to trigger any benchmark equity raising costs.

TasNetworks’ revised proposal adopted our draft decision on the standard asset lives for all asset classes.⁶

⁵ TasNetworks, *Revised regulatory proposal – Transmission – Depreciation tracking module*, November 2023.

⁶ TasNetworks, *Revised regulatory proposal – Transmission – PTRM*, November 2023.

Table 4.2 sets out our final decision on TasNetworks' standard asset lives for the 2024–29 period. We are satisfied that:⁷

- 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 4.2 AER's final 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 | 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 ^b | n/a |

Source: AER analysis.

⁷ NER, cl. 6A.6.3(b)(1)–(2).

- n/a not applicable. We have not assigned a standard asset life to the 'Land and easements' asset class because the capex allocated to it is not subject to depreciation.
- (a) For this final 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.

4.2 Assessment approach

We did not change our assessment approach for regulatory depreciation from our draft decision. Attachment 4 (section 4.3) of our draft decision details that approach.⁸

⁸ AER, *Draft Decision: TasNetworks transmission determination 2024–29 – Attachment 4 – Regulatory depreciation*, September 2023, pp. 3–7.

Shortened forms

| Term | Definition |
|-------|-----------------------------|
| AER | Australian Energy Regulator |
| capex | capital expenditure |
| NER | National Electricity Rules |
| PTRM | post-tax revenue model |
| RAB | regulatory asset base |
| RFM | roll forward model |
