

Final Decision

Ausgrid Electricity Distribution 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 distribution determination that will apply to Ausgrid 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 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 12 – Customer service incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

Contents

List of attachments	iii
4 Regulatory depreciation	1
4.1 Final decision.....	1
4.2 Assessment approach	7
Shortened forms	8

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 Ausgrid, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Ausgrid’s 2024–29 regulatory control period (period) for its distribution and transmission (dual function assets)¹ networks.² 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 Ausgrid’s regulatory depreciation amount, including the standard and remaining asset lives used for forecasting depreciation.

4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$705.4 million and \$71.0 million (\$ nominal) for Ausgrid’s distribution and transmission networks respectively for the 2024–29 period. These amounts represent increases of \$77.3 million (12.3%) and \$12.4 million (21.2%) to the \$628.1 million and \$58.6 million (\$ nominal) in Ausgrid’s revised proposal.³ They are \$126.2 million (21.8%) and \$5.8 million (9.0%) higher than the regulatory depreciation amounts determined in our draft decision for Ausgrid’s distribution and transmission networks, respectively. These increases are primarily driven by lower RAB indexation amounts determined in this final decision compared to our draft decision.⁴

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 Ausgrid’s opening RAB as at 1 July 2024 (Attachment 2), forecast capital expenditure (capex) (section 2.4 of the Overview to this final decision) and asset lives. Our final decision straight-line depreciation amounts for Ausgrid are \$67.2 million and \$8.3 million lower than those in its revised proposal for its distribution and transmission networks, respectively. This is due to the lower opening RAB values as at 1 July 2024 and the lower forecast capex determined for Ausgrid’s distribution and transmission networks in our final decision.

The indexation on the RAB is impacted by our decision on Ausgrid’s opening RAB (Attachment 2), forecast capex (section 2.4 of the Overview to this final decision) and the expected inflation rate (section 2.2 of the Overview to this final decision). Our final decision indexation amounts on Ausgrid’s forecast RAB values are \$144.5 million and \$20.7 million lower than those in its revised proposal for its distribution and transmission networks, respectively. 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 Ausgrid’s applied in its

¹ Ausgrid’s dual function assets are high voltage assets which support the broader NSW/ACT transmission network owned and operated by Transgrid. The AER has decided to continue applying transmission pricing to these assets. See: AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy (New South Wales), Regulatory control period commencing 1 July 2024*, July 2022, p. 54.

² NER, cl. 6.12.1(8) and 6.4.3.

³ Ausgrid, *Revised proposal – Att. 4.3 – PTRM for distribution*, November 2023; Ausgrid, *Revised proposal – Att. 4.5 – PTRM for transmission*, November 2023.

⁴ This is due to a lower expected inflation for the 2024–29 period compared to the draft decision.

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.

In coming to this final decision on Ausgrid’s 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 live (section 4.1.1)
- the continuation of applying the weighted average remaining life (WARL) method to calculate the remaining asset lives as at 1 July 2024 for implementing straight-line depreciation of Ausgrid’s existing assets. In accepting the weighted average method, we have updated Ausgrid’s remaining asset lives to reflect our adjustments to its revised proposed roll forward model (RFM) (section 4.1.1)
- the reallocation of the negative residual RAB value from its existing ‘Land (non-system)’ asset class to a dedicated asset class for reverse depreciation purposes (by returning the negative amount to customers in the 2024–29 period) as part of Ausgrid’s proposed ‘Property sales strategy to help with affordability’ program.⁵ This reallocation has the effect of providing a negative adjustment to the straight-line depreciation component of the regulatory depreciation building block over the 2024–29 period.
 - However, our final decision updated the associated final year asset adjustment reallocation amounts to \$238.8 million (for distribution) and \$34.3 million (for transmission) (\$ nominal) as at 30 June 2024 to reflect our final decision closing RABs as at 30 June 2024 (Attachment 2).⁶

Table 4.1 and Table 4.2 set out our final decision on the forecast regulatory depreciation amount for Ausgrid over the 2024–29 period.

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

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Straight-line depreciation	524.9	565.5	607.7	639.0	626.6	2,963.6
Less: inflation indexation on opening RAB	426.5	440.2	452.3	464.3	475.0	2,258.2

⁵ AER, *Draft Decision Attachment 4 – Regulatory depreciation – Ausgrid – 2024–29 Distribution determination*, September 2023, p. 10.

⁶ Ausgrid’s revised proposal updated the draft decision final year asset adjustment reallocation amounts to \$239.0 million (for distribution) and \$34.3 million (for transmission) (\$ nominal) as at 30 June 2024 to reflect its revised proposed closing RABs as at 30 June 2024. For transmission, the difference between the final decision and revised proposal reallocation amount is less than \$0.1 million. These amounts were reallocated from the existing ‘Land (non-system)’ asset class to a dedicated ‘Land (non-system) depreciation’ asset class for reverse depreciation purposes. This is a RAB reallocation and does not affect the total value of the opening RAB as at 1 July 2024.

Regulatory depreciation	98.4	125.2	155.5	174.7	151.6	705.4
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Source: AER analysis.

Table 4.2 AER’s final decision on Ausgrid’s regulatory depreciation for the 2024–29 period – transmission (\$ million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Straight-line depreciation	74.7	79.6	84.5	86.2	87.8	412.7
Less: inflation indexation on opening RAB	66.4	67.7	68.4	69.1	70.1	341.7
Regulatory depreciation	8.3	11.9	16.0	17.1	17.7	71.0

Source: AER analysis.

4.1.1 Standard and remaining asset lives

For this final decision, we accept Ausgrid’s revised proposed standard asset lives for depreciating its forecast capex for the 2024–29 period because they are consistent with our draft decision. We updated Ausgrid’s remaining asset lives as at 1 July 2024 to reflect our amendments in the RFMs (Attachment 2).

In the draft decision, we accepted Ausgrid’s proposed existing asset classes and standard asset lives. We also assigned a standard asset life of ‘n/a’ to the ‘Equity raising costs’ asset class on the basis that forecast capex determined for Ausgrid did not meet a level to trigger any benchmark equity raising costs. We also accepted the proposed four new distribution and three new transmission asset classes⁷, including their standard asset lives. We introduced a new asset class for ‘Composite poles’ and assigned a standard asset life of 80 years after our review of Ausgrid’s proposed capex for poles.⁸

Our draft decision also accepted Ausgrid’s proposal to continue using the WARL method to calculate the remaining asset lives as at 1 July 2024 for implementing straight-line depreciation of its existing assets. In accepting the WARL method, we updated Ausgrid’s remaining asset lives to reflect our draft decision amendments in the RFMs. We noted that we would recalculate Ausgrid’s remaining asset lives as at 1 July 2024 to reflect revised capex inputs for the final decision.⁹

Ausgrid’s revised proposal adopted our draft decision on the asset lives for all asset classes.¹⁰

⁷ These new asset classes are ‘Leases (network)’ for distribution, and ‘Leases (non-network)’, ‘Enterprise resource platform’ and ‘Land (non-system) depreciation’ for distribution and transmission.

⁸ AER, *Draft Decision Attachment 4 – Regulatory depreciation – Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, pp. 12–13.

⁹ AER, *Draft Decision Attachment 4 – Regulatory depreciation – Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, pp. 13–14.

¹⁰ Ausgrid, *Ausgrid - Att. 4.1 - 2024–29 Proposed revenue*, November 2023, pp. 6 and 13.

The Reset Customer Panel’s stakeholder submission supported multiple aspects of Ausgrid’s proposal which impacts depreciation that was accepted in our draft decision. These include Ausgrid’s proposal to:¹¹

- continue applying the WARL method for implementing straight-line depreciation instead of moving to year-by-year tracking for the 2024–29 period
- extend the new ‘Enterprise resource platform’ asset class beyond 5 years to 15 years
- dispose surplus property assets as part of its ‘Property sales strategy to help with affordability’ program.

For this final decision, we accept Ausgrid’s revised proposed standard asset lives for depreciating the forecast capex for the 2024–29 period. We are satisfied that:¹²

- 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 Ausgrid.

For this final decision, we accept Ausgrid’s revised proposed WARL method to calculate the remaining asset lives as at 1 July 2024. This is consistent with our draft decision and Ausgrid’s initial proposal. In accepting the WARL method, we have updated Ausgrid’s remaining asset lives to reflect our adjustments to the revised proposed RFMs (Attachment 2). This is because some of the inputs in the RFM, such as capex and actual inflation, affect the value of assets in the RAB and in turn, the calculation of the remaining asset lives as at 1 July 2024.

Table 4.3 and Table 4.4 set out our final decision on Ausgrid’s standard and remaining asset lives for the 2024–29 period for its distribution and transmission networks, respectively.

Table 4.3 AER’s final decision on Ausgrid’s remaining and standard asset lives as at 1 July 2024 – distribution (years)

Asset class	Remaining asset life	Standard asset life
Sub-transmission lines and cables	28.4	46.3
Cable tunnel (dx)	58.1	70.0
Distribution lines and cables	41.5	58.0
Substations	29.4	46.8
Transformers	25.0	45.9
Low voltage lines and cables	37.7	52.1

¹¹ Reset Customer Panel, *Submission on Ausgrid’s revised proposal and draft decision 2024–29*, January 2024, pp. 3 and 6.

¹² NER, cl. 6.5.5(b)(1)–(2).

Asset class	Remaining asset life	Standard asset life
Customer metering and load control	4.5	25.0
Customer metering (digital)	5.0	n/a
Communications (digital) - dx	7.9	10.0
Total communications	5.0	10.2
System IT (dx)	5.0	7.0
Ancillary substation equipment (dx)	9.6	15.0
Land and easements	n/a	n/a
Furniture, fittings, plant and equipment	9.7	17.4
Land (non-system)	n/a	n/a
Other non-system assets	22.6	29.4
IT systems	4.4	5.0
Motor vehicles	8.5	10.2
Land (non-system) depreciation ^a	5.0	n/a
Enterprise resource platform ^b	n/a	15.0
Distribution leases (network)	8.4	7.0
Distribution leases (non-network) ^b	n/a	7.0
Composite poles ^b	n/a	80.0
Buildings (system)	44.7	46.8
Buildings (non-system)	27.3	35.9
In-house software	3.8	5.0
Equity raising costs ^c	33.4	n/a

Source: AER analysis.

n/a: not applicable. We have not assigned a standard asset life to the 'Land and easements' and 'Land (non-system)' asset classes because the capex allocated to them are not subject to depreciation. We have also not assigned a standard asset life to the 'Customer metering (digital)' asset classes as it has no forecast capex for the 2024–29 period.

- (a) We have not assigned a standard asset life to the new 'Land (non-system) depreciation' asset class as this is used is for reverse depreciation purposes with a remaining asset life of 5 years to remove the negative closing RAB value as at 30 June 2024.
- (b) The 'Enterprise resource platform', 'Distribution leases (non-network)' and 'Composite poles' asset classes are new and do not have opening RAB values as at 1 July 2024. As such, they have no remaining asset lives at this time.
- (c) For this final decision, the forecast capex determined for Ausgrid does not meet a level to trigger any benchmark equity raising costs and is therefore not assigned a standard asset life.

Table 4.4 AER’s final decision on Ausgrid’s remaining and standard asset lives as at 1 July 2024 – transmission (years)

Asset class	Remaining asset life	Standard asset life
Transmission & zone land & easements	n/a	n/a
Transmission buildings 132/66kV	39.3	60.0
Zone buildings 132/66kV	40.7	60.0
Transmission transformers 132/66kV	29.9	50.0
Zone transformers 132/66kV	28.6	50.0
Transmission substation equip 132/66kV	29.9	45.0
Zone substation equip 132/66kV	29.8	45.0
Ancillary substation equipment (tx)	8.1	15.0
132kV tower lines	43.3	60.0
132kV concrete & steel pole lines	40.1	55.0
132kV wood pole lines	31.7	45.0
132kV feeders underground	30.4	45.0
Cable tunnel (tx)	50.8	70.0
Network control & com systems	7.5	37.2
Communications (digital) - tx	7.4	10.0
System IT (tx)	5.0	7.0
IT systems	3.7	5.0
Furniture, fittings, plant and equipment	8.9	17.4
Motor vehicles	7.7	10.2
Land (non-system)	n/a	n/a
Other non-system assets	22.3	29.4
Transmission leases (network)	46.8	50.0
Land (non-system) depreciation ^a	5.0	n/a
Enterprise resource platform ^b	n/a	15.0
Transmission leases (non-network) ^b	n/a	7.0
Composite poles ^b	n/a	80
Buildings (system)	57.7	60.0
Buildings (non-system)	24.1	35.9

Asset class	Remaining asset life	Standard asset life
In-house software	3.5	5.0
Equity raising costs ^c	31.7	n/a

Source: AER analysis.

n/a not applicable. We have not assigned a standard asset life to the 'Transmission & zone land & easements' and 'Land (non-system)' asset classes because the capex allocated to them are not subject to depreciation.

- (a) We have not assigned a standard asset life to the new 'Land (non-system) depreciation' asset class as this is used for reverse depreciation purposes with a remaining asset life of 5 years to remove the negative closing RAB value as at 30 June 2024.
- (b) The 'Enterprise resource platform', 'Transmission leases (non-network)' and 'Composite poles' asset classes are new and do not have opening RAB values as at 1 July 2024. As such, they have no remaining asset lives at this time.
- (c) For this final decision, the forecast capex determined for Ausgrid 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.¹³

¹³ AER, *Draft Decision Attachment 4 – Regulatory depreciation – Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, pp. 4–9.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
ERP	enterprise resource platform
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
WARL	weighted average remaining life
