

Final Decision

Endeavour Energy Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Attachment 4 Regulatory depreciation

April 2024

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Version	Date	Pages
1	30 April 2024	9

List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to Endeavour Energy 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 7 – Corporate income tax

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

Contents

- List of attachmentsiii**
- 4 Regulatory depreciation.....1**
 - 4.1 Final decision..... 1
 - 4.2 Assessment approach 4
- Shortened forms.....5**

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 Endeavour Energy (Endeavour), we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Endeavour's 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 Endeavour's regulatory depreciation amount, including the standard asset lives used for forecasting depreciation.

4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$1,241.6 million (\$ nominal) for Endeavour for the 2024–29 period. This amount represents an increase of \$53.2 million (4.5%) to the \$1,188.4 million (\$ nominal) in Endeavour's revised proposal.² It is \$114.8 million (10.2%) higher than the regulatory depreciation amount determined in our draft decision. This increase is primarily driven by a higher straight-line depreciation amount³ and lower RAB indexation amount 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 Endeavour'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 for Endeavour is \$10.4 million lower than its revised proposal.⁵

The indexation on the RAB is impacted by our decision on Endeavour'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 on Endeavour's forecast RAB is \$63.6 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 Endeavour applied in its revised proposal. The lower indexation has more than offset the decrease in straight-line depreciation (since

¹ NER, cl. 6.12.1 and 6.4.3.

² Endeavour Energy, *0.07 Main SCS Post-Tax Revenue Model*, November 2023.

³ This is due to a higher straight-line depreciation calculated for existing assets resulting from a higher opening RAB value as at 1 July 2024 compared to our draft decision. The increase in the opening RAB value is mainly driven by a higher actual capex for 2022–23 compared to the estimate adopted in our draft decision. Also, more capex has been allocated to short lived asset classes such as ICT and in-house software which also contributed to the increase in straight-line depreciation.

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

⁵ 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 Endeavour in our final decision.

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 Endeavour'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 depreciation method used 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 application of the year-by-year tracking approach to implement straight-line depreciation of Endeavour's existing assets:
 - Endeavour's revised proposal adopted all our draft decision modelling input changes in the year-by-year tracking depreciation module used for implementing straight-line depreciation.⁶ 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 Endeavour over the 2024–29 period.

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

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Straight-line depreciation	520.5	482.1	473.9	455.9	446.4	2,378.8
Less: inflation indexation on opening RAB	219.1	223.0	227.6	231.5	236.0	1,137.2
Regulatory depreciation	301.4	259.1	246.3	224.4	210.4	1,241.6

Source: AER analysis.

4.1.1 Standard asset lives

For this final decision, we accept Endeavour's revised proposed standard asset lives for depreciating the forecast capex for the 2024–29 period because they are consistent with our draft decision.

In the draft decision, we accepted Endeavour's proposed existing asset classes and their standard asset lives, except for the 'Equity raising costs' asset class. We assigned a standard asset life of 'n/a' to the 'Equity raising costs' asset class on the basis that forecast capex determined for Endeavour did not meet a level to trigger any benchmark equity raising costs. We also accepted Endeavour's proposed two new asset classes for capitalised leases and their standard asset lives.⁷

⁶ Endeavour Energy, *0.09 Depreciation Schedule*, November 2023.

⁷ AER, *Draft Decision: Endeavour Energy distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, September 2023, pp. 9–11.

Endeavour’s revised proposed adopted our draft decision on the standard asset lives for all asset classes.⁸

Table 4.2 sets out our final decision on Endeavour’s standard asset lives for the 2024–29 period. We are satisfied that:⁹

- 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 Endeavour.

Table 4.2 AER’s final decision on Endeavour’s standard asset lives as at 1 July 2024 (years)

Asset class	Standard asset life
Land & easements	n/a
Sub-transmission lines and cables	47.4
Distribution lines and cables	50.6
Substations	40.0
Transformers	44.3
Low voltage lines and cables	52.4
Customer metering and Load control	25.0
Communication	8.4
Emergency spares (Major plant, excludes inventory)	23.6
Information & communication technology	5.0
Furniture, fittings, plant and equipment	13.0
Motor vehicles	8.0
Short term leases	5.0
Long term leases	10.0
Buildings (System)	40.0
Buildings (Non system)	50.0
In-house software	5.0
Equity raising costs ^a	n/a

⁸ Endeavour Energy, *0.01 Revised Regulatory Proposal*, November 2023, p. 34.

⁹ NER, cl. 6.5.5(b)(1)–(2).

Source: AER analysis.

n/a: not applicable. We have not assigned an asset life to the 'Land & easements' asset class because the capex allocated to it is not subject to depreciation.

(a) For this final decision, the forecast capex determined for Endeavour 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.¹⁰

¹⁰ AER, *Draft Decision: Endeavour Energy distribution 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
