Final Decision

Evoenergy Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 4
Regulatory depreciation

April 2024

AUSTRALIAN ENERGY REGULATOR

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1	30 April 2024	11

List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to Evoenergy 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 8 – Efficiency benefit sharing scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

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Attachment 20 – Metering services

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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 Evoenergy, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Evoenergy'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 Evoenergy'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 $254.4 million and $49.0 million for ($ nominal) for Evoenergy's distribution and transmission networks respectively for the 2024–29 period. These amounts represent increases of $5.5 million (2.2%) and $1.2 million (2.4%) to the $248.9 million and $47.8 million ($ nominal) in Evoenergy's revised proposal.[3] They are $0.5 million (0.2%) and $0.7 million (1.5%) higher than the regulatory depreciation amounts determined in our draft decision for Evoenergy's distribution and transmission networks, respectively. For Evoenergy's distribution network, the increase is primarily driven by a lower RAB indexation amount determined in this final decision compared to our draft decision.[4] For its transmission network, the increase is primarily driven by a higher straight-line depreciation amount determined in this final decision compared to our draft decision.[5]

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 Evoenergy's opening RAB as at 1 July 2024 (Attachment 2), forecast capital expenditure (capex) (Attachment 5) and asset lives. Our final decision straight-line depreciation amounts for Evoenergy are $2.2 million and $0.4 million ($ nominal) lower than those in its revised proposal for its distribution and transmission networks, respectively.[6]

The indexation on the RAB is impacted by our decision on Evoenergy's opening RAB, forecast capex and the expected inflation rate (section 2.2 of the Overview to this final

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1 Evoenergy'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: Evoenergy (ACT), Regulatory control period commencing 1 July 2024*, July 2022, p. 49.

2 NER, cll. 6.12.1(8), 6.4.3.

3 Evoenergy, *Distribution PTRM*, November 2023; Evoenergy, *Transmission PTRM*, November 2023.

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

5 This is mainly due to a higher forecast capex amount compared to the draft decision.

6 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 term. In real terms, our final decision straight-line depreciation amounts are slightly lower compared to the revised proposal driven by slight reductions in forecast net capex due to minor modelling updates.

decision). Our final decision indexation amounts on Evoenergy's forecast RAB values are $7.7 million and $1.5 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 Evoenergy's 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.

In coming to this final decision on Evoenergy'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)
- standard asset lives for its existing assets classes (section 4.1.1)
- the application of the year-by-year tracking approach to implement straight-line depreciation of existing assets:
  - Evoenergy's revised proposal adopted all the input changes in our draft decision depreciation tracking modules used for implementing straight-line depreciation for its distribution and transmission networks.[7] In this final decision, we update inputs in the depreciation modules, consistent with our roll forward model (RFM) amendments to the RAB values as discussed in Attachment 2.

For this final decision, we also introduce a new asset class of 'Composite poles' for Evoenergy's distribution network and assign a standard asset life of 80 years following our review of its revised proposed forecast capex (section 4.1.1)

Table 4.1 and Table 4.2 set out our final decision on the forecast regulatory depreciation amounts for Evoenergy's distribution and transmission networks respectively over the 2024–29 period.

Table 4.1 AER's final decision on Evoenergy'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	74.7	83.2	77.4	81.0	73.5	389.9
Less: inflation indexation on opening RAB	24.9	25.9	27.0	28.2	29.5	135.5
Regulatory depreciation	**49.8**	**57.3**	**50.5**	**52.8**	**44.0**	**254.4**

Source: AER analysis.

[7] Evoenergy, *Distribution Depreciation tracking module*, November 2023; Evoenergy, *Transmission Depreciation tracking module*, November 2023.

Table 4.2 AER's final decision on Evoenergy'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	14.6	16.2	15.4	15.3	14.4	76.0
Less: inflation indexation on opening RAB	5.1	5.3	5.4	5.5	5.8	27.0
Regulatory depreciation	**9.5**	**10.9**	**10.0**	**9.9**	**8.7**	**49.0**

Source: AER analysis.

4.1.1 Standard asset lives

For this final decision, we accept Evoenergy's revised proposed standard asset lives for its existing asset classes for depreciating the forecast capex over the 2024–29 period because they are consistent with our draft decision. We also introduce a new asset class of 'Composite poles' for Evoenergy's distribution network and assign a standard asset life of 80 years following our review of its revised proposed capex.

In the draft decision, we accepted Evoenergy'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 Evoenergy did not meet a level to trigger any benchmark equity raising costs.[8]

Evoenergy's revised proposal adopted our draft decision on the standard assets lives for its existing asset classes.[9] For this final decision, we confirm our acceptance of Evoenergy's revised proposed standard asset lives for these asset classes.

New asset class for 'Composite poles'

In addition to the existing asset classes, we consider a new asset class for 'Composite poles' should be introduced to Evoenergy's distribution network following our review of its revised proposed forecast capex (discussed in Attachment 5). Our final decision is to assign a standard asset life of 80 years for this new asset class.

In Evoenergy's revised proposal, the forecast capex associated with composite poles is allocated to its existing asset class of 'Distribution overhead lines' with a standard asset life of 50 years. However, we consider some of its poles capex that uses composite material should be allocated to a new asset class of 'Composite poles' to provide for a depreciation schedule that better reflects the nature and economic life of this type of asset.

Our final decision is to assign a standard asset life of 80 years for this new asset class and is informed by Evoenergy's response to our information request and our decision on this type of asset for other distributors. Evoenergy has stated that a realistic standard asset life for

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8 AER, *Draft Decision: Evoenergy distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, September 2023, pp. 10–12.

9 Evoenergy, *Distribution PTRM*, November 2023; Evoenergy, *Transmission PTRM*, November 2023.

composite poles would be in the order of 60 years to 80 years.[10] Based on our assessment, we consider a standard asset life of 80 years better reflects the expected economic life for this type of asset. This is because a standard asset life of 80 years is consistent with the technical (design) life for this asset type.[11] It is also consistent with our decisions on the standard asset life for the 'Composite poles' asset class for Ausgrid, Essential Energy and TasNetworks.[12]

Reallocating the composite poles capex to the new asset class for depreciation purposes, all things being equal, results in a reduction of $0.6 million ($ nominal) to Evoenergy's revised proposal for the 2024–29 period.

Table 4.3 and Table 4.4 set out our final decision on Evoenergy's standard asset lives for the 2024–29 period for its distribution and transmission networks respectively. We are satisfied that:[13]

- 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 Evoenergy.

Table 4.3 AER's final decision on Evoenergy's standard asset lives as at 1 July 2024 – distribution (years)

Asset class	Standard asset life
Zone substation	40.0
Distribution substations	40.0
Distribution overhead lines	50.0
Distribution underground lines	60.0
IT & communication systems (Networks)	10.0
Motor vehicles	7.0
Other non-system assets (Networks)	5.0
IT systems (Corporate)	5.0

10 Evoenergy, *Response to Information Request #053 – Replacement Capital Expenditure*, 29 January 2024.

11 See for example: Wagners Composite Fibre Technologies Utility Poles and Hitachi Energy Composite utility poles.

12 AER, *Final decision Attachment 4 – Regulatory depreciation – Ausgrid – 2024–29 distribution revenue proposal*, April 2024, p. 3;
AER, *Final decision Attachment 4 – Regulatory depreciation – Essential – 2024–29 distribution revenue proposal*, April 2024, p. 2;
AER, *Final decision Attachment 4 – Regulatory depreciation – TasNetworks Electricity Distribution – 2024–29 distribution revenue proposal*, April 2023, p. 2.

13 NER, cll. 6.5.5(b)(1)–(2).

Asset class	Standard asset life
Telecommunications (Corporate)	5.0
Other non-system assets (Corporate)	5.0
Land	n/a
Buildings	60.0
Composite poles	80.0
Equity raising costs[a]	n/a

Source: AER analysis.
n/a not applicable. We have not assigned a standard asset life to the 'Land' asset class because the capex allocated to it is not subject to depreciation.
(a) For this final decision, the forecast capex determined for Evoenergy 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 Evoenergy's standard asset lives as at 1 July 2024 – transmission (years)

Asset class	Standard asset life
Sub-transmission overhead	40.0
Sub-transmission underground	60.0
Zone substation	40.0
IT & communication systems (Networks)	10.0
Motor vehicles	7.0
Other non-system Assets (Networks)	5.0
IT systems (Corporate)	5.0
Telecommunications (Corporate)	5.0
Other non-system assets (Corporate)	5.0
Land	n/a
Buildings	60.0
Equity raising costs[a]	n/a

Source: AER analysis.
n/a not applicable. We have not assigned a standard asset life to the 'Land' asset class because the capex allocated to it is not subject to depreciation.
(a) For this final decision, the forecast capex determined for Evoenergy 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.[14]

[14] AER, *Draft Decision Attachment 4 – Regulatory depreciation – Evoenergy – 2024–29 Distribution revenue proposal*, September 2023, pp. 4–8.

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