

# Final Decision

**Power and Water Corporation  
Electricity Distribution  
Determination 2024 to 2029  
(1 July 2024 to 30 June 2029)**

**Attachment 4  
Regulatory depreciation**

**April 2024**

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AER reference: AER212492

#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
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 Power and Water Corporation 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 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

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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 Power and Water Corporation, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Power and Water Corporation's 2024–29 regulatory control period (period).<sup>1</sup> 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 Power and Water Corporation'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 \$219.1 million (\$ nominal) for Power and Water Corporation for the 2024–29 period. This amount represents an increase of \$8.6 million (4.1%) to the \$210.5 million (\$ nominal) in Power and Water Corporation's revised proposal.<sup>2</sup> It is \$13.0 million (6.3%) higher than the regulatory depreciation amount determined in our draft decision. This increase compared to our draft decision is primarily driven by a higher straight-line depreciation amount<sup>3</sup> and lower RAB indexation amount.<sup>4</sup>

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 Power and Water Corporation'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 for Power and Water Corporation is \$2.1 million lower than its revised proposal.<sup>5</sup>

The indexation on the RAB is impacted by our decision on Power and Water Corporation's opening RAB (Attachment 2), forecast capex (Attachment 5) and the expected inflation rate (section 2.2 of the Overview to this final decision). Our final decision indexation on Power and Water Corporation's forecast RAB is \$10.7 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 Power and Water Corporation applied in its revised proposal. The lower indexation has more than offset the decrease in straight-line

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<sup>1</sup> NT NER, cl. 6.12.1 and 6.4.3.

<sup>2</sup> Power and Water Corporation, *Revised Regulatory Proposal – 3.04 Post-Tax Revenue Model*, November 2023.

<sup>3</sup> This is due to a higher straight-line depreciation for existing assets resulting from a higher opening RAB as at 1 July 2024 compared to our draft decision.

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

<sup>5</sup> 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 Power and Water Corporation in our final decision.

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 Power and Water Corporation'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 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 Power and Water Corporation's existing assets:
  - Power and Water Corporation'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.<sup>6</sup> 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 Power and Water Corporation over the 2024–29 period.

**Table 4.1 AER's final decision on Power and Water Corporation's regulatory depreciation for the 2024–29 period (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Straight-line depreciation	71.8	74.9	79.8	87.3	94.1	407.9
Less: inflation indexation on opening RAB	34.1	35.9	37.8	39.3	41.7	188.9
<b>Regulatory depreciation</b>	<b>37.7</b>	<b>39.0</b>	<b>42.0</b>	<b>48.1</b>	<b>52.4</b>	<b>219.1</b>

Source: AER analysis.

### 4.1.1 Standard asset lives

For this final decision, we accept Power and Water Corporation's revised proposed standard asset lives for depreciating its forecast capex for the 2024–29 period.

In the draft decision, we accepted Power and Water Corporation's proposed new asset class for 'Batteries' and a standard asset life of 10 years for this asset class. We also accepted Power and Water Corporation's proposed existing asset classes and their standard asset lives, except for the 'Property leases' and 'Equity raising costs' asset classes:<sup>7</sup>

<sup>6</sup> Power and Water Corporation, *SCS Depreciation Model*, November 2023.

<sup>7</sup> AER, *Draft Decision: Power and Water Corporation distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, September 2023, pp. 9–10.

- We increased the standard asset life for the ‘Property leases’ asset class to 9.5 years from the proposed 4.5 years to reflect our draft decision on Power and Water Corporation’s proposed single site consolidation project capex.
  - Our draft decision did not accept Power and Water Corporation’s proposed single site consolidation project capex and required Power and Water Corporation to provide further information to support this project. Therefore, consistent with this capex draft decision, we also did not accept Power and Water Corporation’s proposed change to the standard asset life for the ‘Property leases’ 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 Power and Water Corporation did not meet a level to trigger any benchmark equity raising costs.

Power and Water Corporation’s revised proposal adopted our draft decision on the standard asset lives, except for the increased standard asset life for the ‘Property leases’ asset class. Power and Water Corporation maintained a standard asset life of 4.5 years for the ‘Property leases’ asset class, consistent with its initial proposal. It stated that this shorter asset life reflects its proposal to consolidate key business services and support functions into a single site which would shorten its expected lease renewal for the Mitchell Centre by 5 years.<sup>8</sup>

As discussed in Attachment 5, we consider that Power and Water Corporation’s proposed single site consolidation project to be reasonable. This is based on our capex assessment of the supporting information provided by Power and Water Corporation in its revised proposal and its response to our information requests.<sup>9</sup> Accordingly, we also accept Power and Water Corporation’s revised proposed standard asset life of 4.5 years for the ‘Property leases’ asset class in our final decision to reflect the reduced lease term for the Mitchell Centre.

Table 4.2 sets out our final decision on Power and Water Corporation’s standard asset lives for the 2024–29 period. We are satisfied that:<sup>10</sup>

- 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 Power and Water Corporation.

**Table 4.2 AER’s final decision on Power and Water Corporation’s standard asset lives as at 1 July 2024 (years)**

Asset class	Standard asset life
Substations	42.0
Distribution lines	55.5

<sup>8</sup> Power and Water Corporation, *Revised Regulatory Proposal*, November 2023, p. 26.

<sup>9</sup> AER, *Final decision: Power and Water Corporation distribution determination 2024–29 – Attachment 5 – Capital expenditure*, April 2024, pp. 13–15.

<sup>10</sup> NT NER, cl. 6.5.5(b)(1)–(2).

Transmission lines	56.5
LV services	55.8
Distribution substations	45.0
Distribution switchgear	52.4
Protection	42.0
SCADA	23.0
Communications	13.4
Land and easements	n/a
Property	40.0
IT and communications	11.9
Motor vehicles	14.3
Plant and equipment	13.6
Property leases	4.5
Fleet leases	7.0
Batteries	10.0
Buildings	40.0
in-house software	5.0
Equity raising costs <sup>a</sup>	n/a

Source: AER analysis.

n/a: not applicable. We have not assigned an 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 Power and Water Corporation 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.<sup>11</sup>

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<sup>11</sup> AER, *Draft Decision: Power and Water Corporation distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, September 2023, pp. 3–7.



## Shortened forms

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

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