

# Final Decision

## Ergon Energy Electricity Distribution Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

### Attachment 4 Regulatory depreciation

April 2025

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### Amendment record

Version	Date	Pages
1	30 April 2025	6

# List of attachments

This attachment forms part of the Australian Energy Regulator's (AER's) final decision on the distribution determination that will apply to Ergon Energy for the 2025–30 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. Where an attachment has not been prepared, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following attachments:

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

Attachment 16 – Alternative control services

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## 4 Regulatory depreciation

Regulatory 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 Ergon Energy, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Ergon Energy's 2025–30 regulatory control period (period).<sup>1</sup> The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

This attachment sets out our final decision on Ergon Energy's regulatory depreciation amount. It also presents our final decision on the revised depreciation schedules, including an assessment of the revised standard asset lives used for calculating straight-line depreciation.

### 4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$1,321.2 million (\$ nominal) for Ergon Energy for the 2025–30 period. This amount represents an increase of \$100.2 million (or 8.2%) to the \$1,221.0 million (\$ nominal) in Ergon Energy's revised proposal.<sup>2</sup> It is \$57.5 million (4.5%) 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.

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 Ergon Energy's opening RAB as at 1 July 2025 (Attachment 2), forecast capital expenditure (capex) (Attachment 5) and asset lives. Our final decision straight-line depreciation for Ergon Energy is \$65.6 million (\$ nominal) lower than its revised proposal.<sup>3</sup>

The indexation on the RAB is impacted by our decision on Ergon Energy's opening RAB (Attachment 2), forecast capex (Attachment 5) and the expected inflation rate (section 2.2 of the Overview). Our final decision indexation on Ergon Energy's forecast RAB is \$165.7 million lower than its revised proposal. This is largely due to applying a lower expected inflation rate of 2.72% per annum for this final decision compared with the 2.85% per annum that Ergon Energy applied in its revised proposal (as we discuss in section 2.2 of the Overview). 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.

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<sup>1</sup> Clause 6.12.1 of the National Electricity Rules (NER) sets out the 'constituent decisions' we must make as part of a distribution determination. We must decide whether or not to approve the depreciation schedules submitted by a Distribution Network Service Provider (cl. 6.12.1(8)). This is one of the building blocks we must use to determine the annual revenue requirement: cl. 6.4.3 of the NER.

<sup>2</sup> Ergon Energy, *8.03–Model SCS AER PTRM*, November 2024.

<sup>3</sup> This is due to our final decision on a lower opening RAB value as at 1 July 2025, lower forecast capex and a lower expected inflation compared to Ergon Energy's revised proposal.

In coming to this final decision on Ergon Energy’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 amount as set out in our post-tax revenue model (PTRM).
- the continuation of applying the ‘year-by-year tracking’ approach for implementing straight-line depreciation of its existing assets and its forecast capex.<sup>4</sup>
- the existing asset classes and standard asset lives. We also accept Ergon Energy’s proposed new asset classes for capitalised leases of ‘Initial leases’ and ‘Lease extensions’, and their standard asset lives (section 4.1.1).

Table 4.1 sets out our final decision on the forecast regulatory depreciation amount for Ergon Energy’s 2025–30 period.

**Table 4.1 AER’s final decision on Ergon Energy’s forecast depreciation for the 2025–30 period (\$ million, nominal)**

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Straight-line depreciation	637.8	683.7	733.8	780.9	815.8	3,652.0
Less: inflation indexation on opening RAB	428.8	447.3	465.9	484.7	504.1	2,330.8
<b>Regulatory depreciation</b>	<b>209.0</b>	<b>236.4</b>	<b>267.9</b>	<b>296.1</b>	<b>311.7</b>	<b>1,321.2</b>

Source: AER analysis.

#### 4.1.1 Standard asset lives

For this final decision, we accept Ergon Energy’s revised proposed standard asset lives for depreciating the forecast capex for the 2025–30 period because they are consistent with our draft decision. We also accept Ergon Energy’s proposed new ‘Composite poles’ asset class with a standard asset life of 80 years.

In the draft decision, we accepted Ergon Energy’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 Ergon Energy did not meet a level to trigger any benchmark equity raising costs. We also accepted Ergon Energy’s proposed new ‘Initial leases’ and ‘Lease extensions’ asset classes for capitalised leases and their respective standard asset lives of 10 years and 5 years. For the ‘Initial leases’ asset class, we also updated the proposed total lease costs rolled into Ergon Energy’s RAB at 30 June 2025, and in turn the remaining asset life of 4.3 years to reflect more up-to-date weighted average cost of capital values.<sup>5</sup>

<sup>4</sup> AER, *Draft decision: Ergon Energy distribution determination 2025–30 – Attachment 4 – Regulatory depreciation*, September 2024, pp. 8–9.

<sup>5</sup> AER, *Draft Decision: Ergon Energy distribution determination 2025–30 – Attachment 4 – Regulatory depreciation*, September 2024, pp. 9–10.

Ergon Energy’s revised proposal adopted our draft decision on the standard lives for all asset classes.<sup>6</sup> Ergon Energy also proposed a new ‘Composite poles’ asset class with a standard asset life of 80 years.<sup>7</sup> While Ergon Energy has not proposed any forecast capex for composite poles for the 2025–30 period, it has proposed the new asset class so that if it incurs any such capex during the period, it can allocate it to this asset class.

Ergon Energy’s other forecast capex for poles is primarily allocated to the existing asset class for ‘Overhead distribution lines’, which has a lower standard asset life of 45 years.

We consider Ergon Energy’s proposed approach to introduce the ‘Composite poles’ asset class is appropriate because the proposed standard asset life of 80 years reflects the economic life of these types of assets.<sup>8</sup> This 80 year standard asset life is also consistent with our recent distribution determinations where we have approved this asset class.<sup>9</sup> Our final decision therefore accepts this new asset class and standard asset life.

Table 4.2 sets out our final decision on Ergon Energy’s standard asset lives for the 2025–30 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 Ergon Energy.

**Table 4.2      AER’s final decision on Ergon Energy’s standard asset lives for the 2025–30 period (years)**

Asset class	Standard asset life
Overhead Sub-Transmission Lines	55.0
Underground Sub-Transmission Cables	45.0
Overhead Distribution Lines	50.0
Underground Distribution Cables	60.0
Distribution Equipment	35.0

<sup>6</sup> Ergon Energy, *2025–30 Revised regulatory proposal*, November 2024, p. 105.

<sup>7</sup> Ergon Energy’s revised proposal did not include the new asset class for ‘Composite poles’ in the PTRM. In a meeting on 15 January 2025, Ergon Energy confirmed that it also intended to propose this new asset class, which is consistent with Energex’s revised proposal.

<sup>8</sup> NER, cl. 6.5.5(b)(1).

<sup>9</sup> AER, *Final decision: Essential Energy distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, April 2024, pp. 2–4; AER, *Final decision: Ausgrid distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, April 2024, pp. 3 and 6; AER, *Final decision: Evoenergy distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, April 2024, pp. 3 and 5; AER, *Final decision: TasNetworks distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, April 2024, pp. 2 and 4.

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

Asset class	Standard asset life
Substation Bays	45.0
Substation Establishment	60.0
Distribution Substation Switchgear	45.0
Zone Transformers	50.0
Distribution Transformers	45.0
Low Voltage Services	35.0
Communications – Pilot Wires	35.0
Generation Assets	30.0
Other Equipment	40.0
Control Centre - SCADA	7.0
Land & Easements (System) - combined	n/a
IT Systems	5.0
Office Equipment & Furniture	7.0
Motor Vehicles	10.0
Plant & Equipment	10.0
Buildings	40.0
Land & Easements - combined	n/a
Land Improvements	40.0
Metering	25.0
Communications	30.0
ICT Legacy Assets	n/a
Initial Leases (10 yr life)	10.0
Lease Extensions (5yr Life)	5.0
Composite Poles	80.0
Buildings - capital works	40.0
In-house software	5.0
Equity raising costs <sup>a</sup>	n/a

Source: AER analysis.

- (a) For this final decision, the forecast capex determined for Ergon Energy does not meet a level to trigger any benchmark equity raising costs.



n/a not applicable. We have not assigned a standard asset life to the 'Land & easements (system) – combined' and 'Land & easements – combined' asset classes because the capex allocated to them is not subject to depreciation. We have not assigned a standard asset life to the 'ICT legacy assets' asset class because there is no forecast capex allocated to this asset class.

## 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: Ergon Energy distribution determination 2025–30 – Attachment 4 – Regulatory depreciation*, September 2024, pp. 3–7.

## Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
NER	National Electricity Rules
period	regulatory control period
PTRM	post-tax revenue model
RAB	regulatory asset base