Final Decision

SA Power Networks Electricity Distribution Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 4
Regulatory depreciation

April 2025

AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	30 April 2025	5

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 SA Power Networks 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 7 – Corporate income tax

Attachment 10 – Service target performance incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 20 – Metering 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 SA Power Networks we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for SA Power Networks' 2025–30 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 SA Power Networks' 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 $1,261.6 million ($ nominal) for SA Power Networks for the 2025–30 period. This amount represents an increase of $24.9 million (2.0%) to the $1236.6 million ($ nominal) in SA Power Networks' revised proposal.[2] It is $61.0 million (5.1%) 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[3] and lower RAB indexation amount.[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 SA Power Networks' 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 SA Power Networks is $21.6 million lower than its revised proposal.[5]

The indexation on the RAB is impacted by our decision on SA Power Networks' 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 SA Power Networks' forecast RAB is $46.5 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 SA Power Networks applied in its revised proposal. The lower indexation has more than offset the reduction 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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1 NER, cll. 6.12.1 and 6.4.3.

2 SA Power Networks, *1.1 - Post Tax Revenue Model*, December 2024.

3 This reflects a higher opening RAB value as at 1 July 2025 and higher forecast capex over the 2025–30 period in our final decision, compared to our draft decision. The increase in the opening RAB value is mainly driven by higher 2024–25 capex to reflect SA Power Networks' revised estimate and higher 2023–24 capex to reflect actual values, compared to the estimate adopted in our draft decision.

4 This is due to a lower expected inflation for the 2025–30 period compared to the draft decision.

5 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 SA Power Networks' revised proposal.

In coming to this final decision on SA Power Networks' 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
- 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 SA Power Networks' existing assets:
  - SA Power Networks' 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 amendments to the RAB as discussed in Attachment 2.

Table 4.1 sets out our final decision on the forecast regulatory depreciation amount for SA Power Networks over the 2025–30 period.

Table 4.1 AER's final decision on SA Power Networks' regulatory depreciation for the 2025–30 period ($ million, nominal)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Straight-line depreciation	411.5	428.3	427.3	380.1	383.5	2,030.8
Less: inflation indexation on opening RAB	141.7	147.4	153.3	159.8	167.1	769.2
Regulatory Depreciation	**269.8**	**280.9**	**274.0**	**220.4**	**216.4**	**1,261.6**

Source: AER analysis.

4.1.1 Standard asset lives

For this final decision, we accept SA Power Networks' revised proposed standard asset lives for depreciating the forecast capex for the 2025–30 period because they are consistent with our draft decision.

In the draft decision, we accepted SA Power Networks' proposed existing asset classes and their standard asset lives, except for the 'Distribution lines' and 'Equity raising costs' asset classes.[7] We assigned a standard asset life of 'n/a' to the 'Equity raising costs' asset class on the basis that forecast capex determined for SA Power Networks did not meet a level to trigger any benchmark equity raising costs. We introduced a new asset class of 'Stobie poles' and assigned a standard asset life of 80 years following our review of SA Power Networks' proposed capex. We also reduced the standard asset life for the existing 'Distribution lines' asset class to 52.1 years from the previously approved life of 55 years to

6 SA Power Networks, *4.1 - RAB Depreciation Model*, December 2024.

7 AER, *Draft Decision: SA Power Networks distribution determination 2025–30 – Attachment 4 – Regulatory depreciation*, September 2024, pp. 9–11.

reflect the reallocation of forecast capex for longer-lived Stobie poles from this asset class to the new 'Stobie poles' asset class.[8]

SA Power Networks' revised proposal adopted our draft decision on the standard asset lives for all asset classes.[9]

Table 4.2 sets out our final decision on SA Power Networks' standard asset lives for the 2025–30 period. We are satisfied that:[10]

- 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 SA Power Networks.

Table 4.2 AER's final decision on SA Power Networks' standard asset lives (years)

Asset class	Standard asset life
Sub-transmission lines	55.0
Distribution lines	52.1
Substations	45.0
Distribution transformers	45.0
Low voltage services	55.0
Communications	15.0
Contributions	n/a
Land	n/a
Substation land	n/a
Easements	n/a
Buildings	40.0
Heavy vehicles - 15 year	15.0
Heavy vehicles - 10 year	10.0
Light vehicles	5.0
IT assets	5.0
Plant & tools / office furniture	10.0
Sub-transmission and distribution lines - short life	25.0

8 AER, *Draft Decision: SA Power Networks distribution determination 2025–30 – Attachment 4 – Regulatory depreciation*, September 2024, p. 9.

9 SA Power Networks, *1.1 - Post Tax Revenue Model*, December 2024.

10 NER, cll. 6.5.5(b)(1)–(2).

Asset class	Standard asset life
Substations and transformers - short life	20.0
Electronic network assets	15.0
Stobie poles	80.0
Buildings - capital works	40.0
In-house software	5.0
Equity raising costs[a]	n/a

Source: AER analysis.
n/a: not applicable. We have not assigned an asset life to the 'Land', 'Substation land' & 'Easements' asset classes because the capex allocated to them is not subject to depreciation. We have not assigned a standard asset life to the 'Contributions' asset class as there is no forecast capex allocated to this asset class.
(a) For this final decision, the forecast capex determined for SA Power Networks 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.[11]

[11] AER, *Draft Decision: SA Power Networks distribution determination 2025–30 – Attachment 4 – Regulatory depreciation,* December 2024, pp. 3–7.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
NER	National Electricity Rules
RAB	regulatory asset base